

THE HIGH COST OF UNAFFORDABLE HOUSING IN KETCHUM, IDAHO

CAUSES, EFFECTS, AND POTENTIAL SOLUTIONS

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Executive Summary

Housing unaffordability threatens the fabric of Ketchum’s community. Expensive housing forces many residents to spend more than what they can afford, or find less expensive housing elsewhere. Residents in unaffordable housing must choose between paying for housing and covering other important costs, such as food, transportation, healthcare, and education. Limited affordable options also mean households that stay in Ketchum often settle for the wrong size or type of home to accommodate their needs. High housing costs are not conducive to a stable, permanent population base, but lead instead to a transient population where households shouldering the cost burden cycle through like a revolving door. Ketchum has already lost population since the year 2000. If Ketchum does not change course, families and young people will continue to leave, while high housing costs may discourage companies from moving to Ketchum.

This project evaluated housing and demographic trends from 1970-present. The share of permanent-resident-occupied housing has dropped dramatically, while vacation homes grew. Most for-sale single-family homes are far beyond the reach of median-income families, and the few affordable condos and townhomes are often too small for families that need more space or prefer a single-family home. New Ketchum renters also pay the highest rental housing costs in the region by far, and they have few options to choose from because vacant for-rent homes have dropped since 1970. These losses are compounded by a sharp increase in advertised rents, and a decline in long-term rentals starting in 2010. Renters and owners who cannot find what they need in Ketchum have limited options due to increasing prices and decreasing availability region-wide.

There are several likely causes of housing unaffordability. Vacation homes, short-term rentals, and the broader housing market and economy appear to grow demand for residential properties, remove properties from the residential market, and increase prices. The zoning and regulatory framework, the unique social, economic, and environmental dynamics of Ketchum and the surrounding Wood River Valley, and high land and construction costs also limit the build-rate of new, affordable workforce housing. Idaho’s conservative legislative, judicial and regulatory climate further limits policies that could make Ketchum more affordable. Idaho is a Dillon’s Rule state, so local municipalities must tread lightly when enacting new policies. Idaho State Statute 67-6539, “Limitations On Regulation Of Short-Term Rentals And Vacation Rentals,” also prohibits local regulation of short-term rentals, except to protect guest health and safety. Lastly, short-term rentals and vacation homes are important to Ketchum’s tourism-based economy. About 19% of Ketchum’s workers depend on these markets, while both generate valuable tax revenue. The City must balance the need to grow the workforce housing supply with Ketchum’s economic needs.

This report recommends that the City of Ketchum act in three ways to promote housing: 1) grow the affordable workforce housing supply; 2) use sales tax permits to track, manage, and capture value from short-term rentals; and, 3) conduct further research on housing needs and incentives to increase long-term rentals.

Recommendations to Grow the Affordable Workforce Housing Supply

1. Take ownership of workforce housing, craft and implement a strong housing plan, and tell a compelling housing narrative to generate community support—political leadership is key.
2. Make long-term rentals more viable and profitable.
3. Grow the workforce housing supply on a local and regional basis: build and purchase deed-restricted workforce homes, build dormitory-style or ‘micro-unit’ housing for seasonal workers in non-residential neighborhoods, and build a variety of rental and ownership homes at a diversity of price points to meet Ketchum residents’ housing needs throughout their lifecycle.

4. Foster regional coordination to grow workforce housing.
5. Update zoning and regulatory policies: make it easier and cheaper to build smaller, affordable homes.
6. Identify and come up with a plan to address strategic sewer, water, and other infrastructure gaps that currently hold back workforce housing investments.

Recommendations to Use Sales Tax Permits to Track, Manage, and Capture Value from Short-Term Rentals

1. Increase sales tax permits to manage, track, and collect tax from short-term rentals.
2. Contract with a short-term rental software company to track the market and increase permit rates.
3. Protect guest health and safety by including requirements to install specific safety features, undergo building inspections, maintain a guest registry, and meet minimum insurance requirements.
4. Prevent conflicts between guests and neighbors: set up a complaint hotline, institute occupancy and parking limits, and require hosts to include them in rental advertisements and contracts; require hosts to identify a 24/7 primary contact and post 'good neighbor' information inside their property.
5. Adopt best practices for City staff responsibilities in the management and tracking of sales tax permits.
6. Educate state elected officials on short-term rental impacts and problems with limiting local control.

Recommendations for Future Research

1. Conduct a thorough housing needs assessment.
2. Investigate incentives to switch from short-term to seasonal or long-term rentals.
3. Document stories about what it is like to find a home in Ketchum.
4. Investigate the viability of select workforce housing policies in Idaho.

Ketchum must come together as a community to tackle housing unaffordability. The ability to meet the community's vision in the 2014 Comprehensive Plan— "to be a place where those who desire to live and work in Ketchum can do so"—is far from reach. The City is losing young people and families because people cannot afford to live here, while businesses suffer due to unfilled jobs. Without a serious course change, Ketchum will continue to lose the permanent resident base that it needs to carry the city's legacy to the next generation. These policies are an important first step to address Ketchum's housing unaffordability before it is too late.

Introduction

Ketchum recognized in its 2014 Comprehensive Plan the value in being “a community where people who wish to work and live here can do so.”¹ Affordable housing that meets the needs of a diverse workforce, representing a range of income levels and life stages, is at the epicenter of a strong, healthy, and economically viable community.² Affordable housing enables residents to meet other critical needs, such as healthcare, education, transportation, and food.³ Conversely, insufficient housing—especially workforce housing—forces residents to choose between spending much of their income on housing (to the detriment of other needs) or finding less expensive housing elsewhere.⁴ More affordable workforce housing reduces the housing cost burden for workers and middle- and low-income families, and increases the chances their children will be successful in school,⁵ their health care needs will be met,⁶ their neighborhoods will be stable,⁷ and they will participate in a dynamic and growing local workforce⁸—all of which are important pieces of a healthy and sustainable community.

The City of Ketchum has long recognized the need for affordable workforce housing within City limits. The City has decades-long policies to incentivize the development of housing for full-time working residents, termed “community housing.” However, stories about friends and neighbors who struggled to find a long-term rental or for-sale home in Ketchum are common. Ketchum stakeholders also have different perceptions about housing unaffordability. Some suggest moderate-income residents seeking to live in Ketchum have enough affordable ownership opportunities, measuring “enough” by the number of housing units within a price range, regardless of unit size and characteristics (generally older condominiums or townhomes). The affordability of these properties relies on several assumptions, including mortgage interest rates and one’s ability to save for a down payment, take on debt, and spend money on housing. Whether the for-sale properties have enough bedrooms to meet housing need is also another story.

Others claim housing affordability is not a problem if households expand their preferred geographic location to unincorporated Blaine County and the towns of Hailey and Bellevue—located 12 and 16 miles to the South (Figure 1). There are affordable, single-family homes in those communities, but they are becoming scarce as demand shifts away from Ketchum. Home prices are increasing rapidly, and are now almost out of reach for families who could have afforded them just a few years ago.

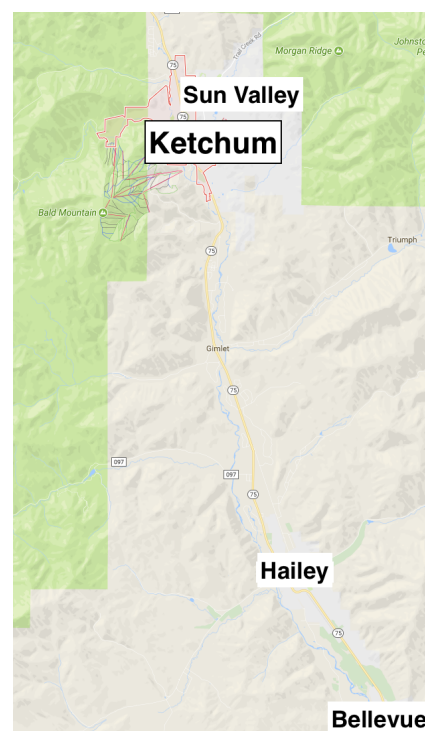


Figure 1: Map of Blaine County, Idaho, including the cities of Ketchum, Sun Valley, Hailey, and Bellevue. Source: Google, 2017.

¹ City of Ketchum. (2014). Ketchum 2014 Comprehensive Plan, p. 9. Accessible at <http://ketchumidaho.org/DocumentCenter/View/1298>.

² Bratt, R., Stone, M., and Hartman, C. (2013). Why A Right to housing Is Needed and Make’s Sense: Editors’ Introduction. In Tighe, R. & Mueller, E. (Eds.). *The Affordable Housing Reader*, 53-71. Oxford, United Kingdom: Routledge.

³ Vega, W., & Wallace, S. (2016). Affordable Housing: A Key Lever to Community Health. *American Journal of Public Health*, 1016(4), 635-636.

⁴ Joint Center for Housing Studies of Harvard University. (2017). *The State of the Nation’s Housing*. Accessed October 24, 2017 at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/harvard_jchs_state_of_the_nations_housing_2017.pdf.

⁵ Newman, S., & Holupka, S. (2016). Housing Affordability and Children’s Cognitive Achievement. *Health Affairs (Project Hope)*. 35(11), 2092 – 2099.

⁶ Vega, W., & Wallace, S. (2016). Affordable Housing: A Key Lever to Community Health. *American Journal of Public Health*, 1016(4), 635-636.

⁷ Ellen, I., & Voicu, I. (2006). Nonprofit Housing and Neighborhood Spillovers. *Journal of Policy Analysis and Management*, 25(1), 31-52.

⁸ Desmond, M. & Gerhenson, C. (2016). Housing and Employment Insecurity among the Working Poor. *Social Problems*. 63(1), 46-67.

There is also disagreement on housing unaffordability causes. Some point to unoccupied vacation homes and the conversion to short-term rentals (properties rented for 30 consecutive nights or less) in the past 10 years. The counterargument is that short-term rentals benefit the community due to additional tourist accommodations, sales tax revenue, and the ability for permanent residents to rent their homes for supplementary income.

Others blame the low build-rate of workforce homes affordable to Ketchum's middle- and low-income workers. They suggest there are several causes: developers who focus on luxury homes, a City approval process that is too onerous, pressures to preserve open space, a "not in my back yard" sentiment, limitations on existing infrastructure capacity, and high construction and land costs. A final line of reasoning is that cities should tackle housing unaffordability on a county-wide basis because land values in Ketchum are too expensive. In response, residents ask: if luxury properties are the only new construction in Ketchum, what will happen to Ketchum's long-term residents, and will Ketchum be a viable community in 10 or 20 years?

Research Goals and Tasks

This project explored the housing affordability theories described above, with the aim to identify and analyze the causes of, and potential solutions to, housing unaffordability. This research focused on areas the City believed could be the most illuminating:

1. Demographics, income, real estate, the long- and short-term rental market, homeownership, and housing occupancy/vacancy trends.
2. The strengths and weaknesses of Ketchum's housing affordability and short-term rental policies.
3. Relevant Idaho state statutes and court cases enabling or preventing Ketchum from instituting policies to promote workforce housing and/or regulate short-term rentals.
4. Case studies of other resort communities on workforce housing and short-term rentals.
5. Potential policies the City of Ketchum could take to address housing unaffordability and regulate short-term rentals.
6. Specific changes most likely to increase the supply of workforce housing in Ketchum.

Connections to the 2014 Ketchum Comprehensive Plan

This research aims to make progress on housing priorities in Ketchum's 2014 Comprehensive Plan (the Plan). The Plan identifies "A Variety of Housing Options" as a "Core Community Value:"

"Ketchum values a community where people who wish to work and live here can do so. With housing and land prices expected to grow and wages expected to remain relatively constant, the community must explore ways to ensure that citizens have a reasonable choice of housing. Ketchum strives to use creative solutions to housing diversity by looking to partnerships, evaluating zoning, density, and infill policies; removing barriers, and creating incentives to achieve our goals. To maintain a strong economy with a base of jobs and a diverse demographic of residents, it is important for the community to provide a varied supply of housing choices—both year-round work force housing and vacation homes for seasonal residents."⁹

The Plan identifies several goals to make progress on this value, including:

- Ketchum will increase its supply of homes, including rental and special-needs housing for low-, moderate- and median-income households. (Goal H-1)
- The Ketchum community will support affordable housing programs. (Goal H-2)

⁹ City of Ketchum. (2014). p. 9.

- Ketchum will have a mix of housing types and styles. (Goal H-3)

This research aims to help the City implement goals H-1 and H-2. Ketchum already has an affordable housing-density bonus to grow workforce housing, which is evaluated in another study and is not described here. This policy allows developers to build higher density housing in exchange for contributing to the development of affordable housing within City limits.

Data Sources and Methods

Several sources provided data on housing, demographic, and economic trends in Ketchum, Blaine County, and the other Wood River Valley cities of Sun Valley, Hailey, and Bellevue. These sources include the U.S. Decennial Census, American Community Survey, National Bureau of Labor Statistics, Sun Valley Board of Realtors, and Blaine County Housing Authority. Academic research papers on housing affordability, the housing market, and short-term rentals guided the interpretation of research data.

Manual review of 332 short-term rental listings within Ketchum City limits advertised on Vacation Rental By Owner (VRBO.com) from September 21 – November 7, 2016 provided a detailed, representative sample of short-term rentals, with data on property and owner characteristics. Reports on the total number of short-term rentals and their approximate locations within the Ketchum City limits, as advertised on twelve national hosting site for two days in 2017 (February 8 and August 14), supplemented the detailed, representative sample data from VRBO.

Several other data sources informed this report and generated a list of best practices on short-term rentals and workforce housing. These sources include policy documents and newspaper articles, as well as 12 interviews. Interviews were conducted with urban planners and city administrators working in Idaho and other mountain resort communities, as well as short-term rental, affordable housing, and economic experts that specialize in these communities.

Organization of this Report

This report begins with an analysis of demographic and housing trends in the long-term (1970 - 2015), and the near-term (2007 - Present), followed by a presentation of the probable causes of housing unaffordability. The report continues by identifying population segments most affected by housing unaffordability. It then summarizes Ketchum's current policy approaches to housing affordability and management of short-term rentals, and highlights policies in other mountain resort communities. The report concludes with recommendations on policy approaches to grow workforce housing, management of short-term rentals, and research to better understand housing unaffordability trends in Ketchum. Lastly, the report identifies non-viable policies that are not recommended because they are unenforceable or logistically difficult.

Demographic and Housing Trends in the Long-Term: 1970 - 2015

Ketchum has changed dramatically since 1970, according to U.S. Census¹⁰ and American Community Survey data.¹¹ Total homes and population grew, but the proportion occupied by permanent residents fell. Vacation homes comprised at least 50% of all homes in 2015. Median for-sale home values increased faster than median income, creating a large—and growing—gap between for-sale homes and what median-income households can afford. The median rent increased at approximately the same rate as median income, but losses in vacant for-rent homes make finding a rental more difficult, particularly for households earning less than the median income. As a result, a high proportion of Ketchum homeowners and renters lived in unaffordable housing in 2015. A home is unaffordable when it requires its occupants to spend more than 30% of their annual income on housing.¹²

Quick Facts: 1970 – 2015

- New home construction outpaced population growth.
- Homes occupied by permanent residents fell from 70% - 41% of all homes.
- Vacation homes comprised most growth; they were 50% of all homes in 2015.
- The median home value grew almost three times faster than median income.
- The median home value was 8.5 times higher than median income in 2015 (3.5 times is considered affordable).

Losses in Homes Occupied by Permanent Residents, Growth in Vacation Homes

Ketchum’s permanent population and share of occupied homes appear to have an inverse relationship with vacant homes and total homes. U.S. Census and American Community Survey data indicate they followed similar trend lines until 2000, after which total population and occupied homes declined, while total homes and vacant homes grew. Most new homes appear to be vacation homes¹³ (Figure 2).

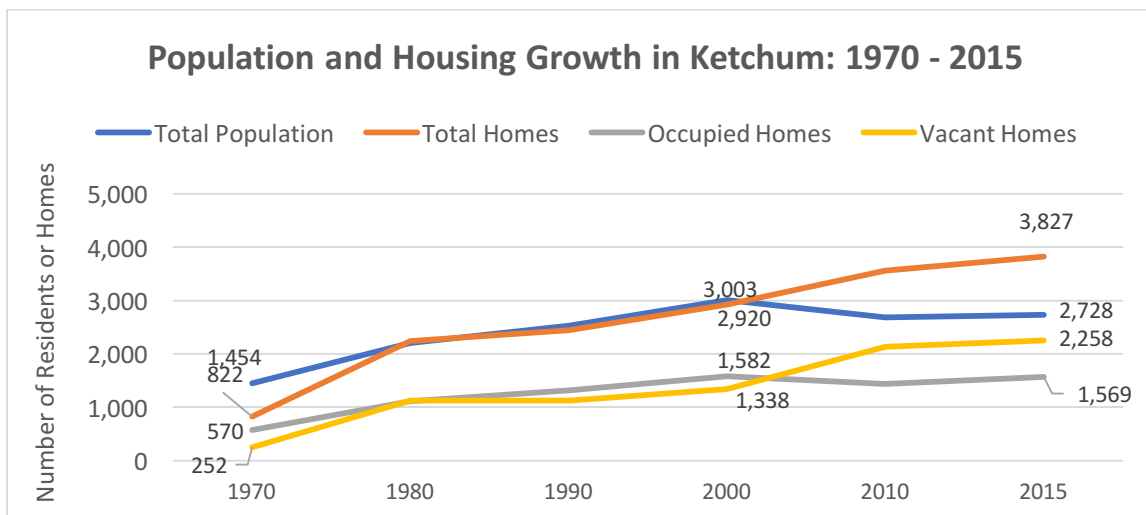


Figure 2: Comparison between total population, total homes, occupied homes, and vacant homes from 1970 to 2015. Source: U.S. Census Bureau, U.S. Decennial Census, 1970 – 2000; American Community Survey 5-Year Estimates, 2005 – 2015.

¹⁰ 1970 is the first year the U.S. Census Bureau collected comprehensive data on housing trends in Ketchum.

¹¹ The U.S. Census Bureau conducts the ongoing American Community Survey. It was first implemented in 2005 and replaces the long-form component of the U.S. Decennial Census. The U.S. Census Bureau sends approximately 295,000 surveys per month to households across the U.S., and releases updated data about cities, counties, states, and other geographic areas on a yearly basis. For more information, see: <https://www.census.gov/programs-surveys/acs/about/information-guide.html>.

¹² The 30% threshold is a national standard set by the U.S. Department of Housing and Urban Development, and is often applied by Federal and state housing programs, leasing agents, and mortgage lenders. Renter housing costs include rent, fuel, and utilities. Homeowner housing costs include monthly mortgage payments (if applicable), homeowners’ association fees, property taxes, insurance, utilities, fuel, and other costs.

¹³ U.S. Census Bureau. (1970, 1980, 1990, 2000). *U.S. Decennial Census*. U.S. Census Bureau. (2005 – 2015). *American Community Survey 5-Year Estimates*.

There were an estimated 275 fewer permanent residents and 43 fewer occupied homes in 2015 than in the year 2000 peak of 3,003 residents and 1,582 occupied homes. Population loss may be related to families who left Ketchum due to high housing prices. Anecdotal evidence also suggests population loss occurred because people bought homes in the 1970s and 1980s, and ‘cashed out’ when home prices were high in the mid-2000s.

The share of permanent resident-occupied homes declined since 1970. At that time, there were an estimated 1,454 residents and 822 homes (Figure 3). Permanent residents occupied 70% of homes: renters occupied 31% of all homes, while homeowners occupied 39%. Ketchum had a relatively high vacancy rate of 31% even in 1970, however.¹⁴ The U.S. Census did not track reasons for vacancy in Ketchum until 1990. The high number of vacation homes counted in 1990 indicate some vacant properties were probably vacation homes in 1970. By 1990, 46% of all homes were vacant, 60% of which were vacation homes (23% of all homes). Ketchum was apparently already on the way to becoming a high-end mountain resort community by 1970.

By 2015, the total population had grown to an estimated 2,729 residents and 3,857 homes. Ketchum added only 637 new homeowners, but 2,373 new homes. Owner- and renter-occupied homes dropped to 25% and 16% of all homes, with permanent residents occupying only 41% of all homes. Fifty-nine percent of all homes were vacant in 2015, and 87% of these were seasonally vacant homes (vacation homes). Vacation homes grew from 678 in 1990 to 1,972 in 2015—a 190% growth rate. Vacation homes comprised 50% of all homes by 2015.

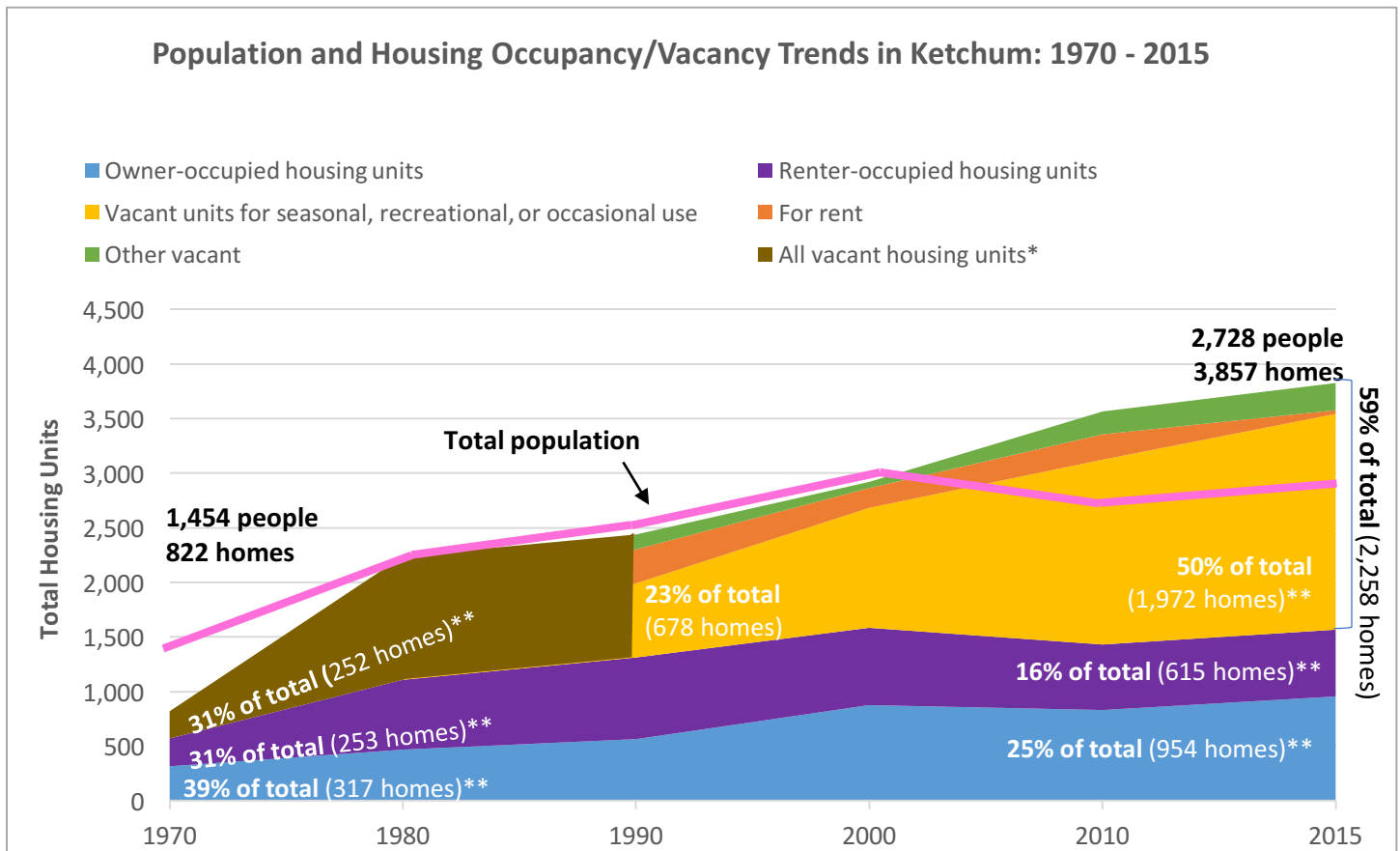


Figure 3: Housing occupancy/vacancy trends in Ketchum from 1970 – 2015. *Housing vacancy characteristics are not available pre-1990. **Rounding may cause percentages to exceed 100. Source: U.S. Decennial Census, 1970 – 2000; American Community Survey 5-Year Estimates, 2005 – 2015.

¹⁴ Rounding may cause percentages to exceed 100.

The share of renter-occupied housing also declined since 1970. Ketchum added very few long-term rental homes compared to new home construction and population growth. U.S. Census data identify only 362 additional renter-occupied homes from 1970 – 2015—an average of eight new renter households per year. In comparison, Ketchum’s population grew by 1,906 people—an annual average of 42.3 new residents. Despite this population increase, Ketchum’s vacant for-rent homes declined by 89% since 1990. These homes dropped from 315 in 1990 to 35 in 2015 (falling from 28% to 2% of all homes). In total, Ketchum lost 280 vacant for-rent homes, or approximately 11.2 homes per year.

Comparison of Housing Occupancy/Vacancy in Other Mountain Resort Communities

Ketchum had a high vacancy rate and low renter and owner occupancy rates compared to its mountain resort peer communities. Only Breckenridge, CO, Park City, UT, and Vail, CO had higher overall vacancy rates than Ketchum in the mid-2010s (Table 1). Ketchum also had lower owner- and renter-occupancy rates than all but those three cities. Durango, CO and Jackson, WY stand out as having low vacancy rates (10% and 18%, respectively), and high owner- and renter-occupancy rates. In Durango, homeowners and renters occupy 42% and 48% of all homes, respectively. In Jackson, owners occupy 32% of all homes, and renters occupy 50%.

Table 1: Summary of Municipal Population, Housing Units, and Usage Classification in Western Mountain Resort Communities in the mid 2010s

Municipality	Total Housing Units	Owner Occupied Units	Percentage of Owner Occupied Units	Renter Occupied Units	Percentage of Renter Occupied Units	Vacant Housing Units	Percentage of Vacant Units
Town of Breckenridge	7,146	1,017	14%	937	13%	5,128	72%
Park City Municipal Corporation	10,715	1,835	17%	1,274	12%	7,607	71%
Town of Vail	7,366	1,223	17%	1,493	20%	4,649	63%
Ketchum	3,857	954	25%	615	16%	2,258	59%
Town of Telluride	2,145	464	22%	616	29%	1,065	50%
City of Steamboat Springs	10,308	3,386	33%	2,036	20%	4,886	47%
City of Aspen	6,364	1,899	30%	1,816	29%	2,649	42%
City of South Lake Tahoe	16,602	3,722	22%	6,091	37%	6,789	41%
Town of Crested Butte	1,090	372	34%	353	32%	344	32%
Town of Jackson	4,758	1,526	32%	2,370	50%	862	18%
City of Durango	8,482	3,560	42%	4,046	48%	876	10%

Source: US Census Bureau, Census 2010 Summary with ESRI Housing Profile Projections for 2016. Prepared and provided by Jeffrey B. Jones, Summit County, Utah, February 2017. First published by Garrison, R., Cares, C., & McLeod, B. (2017). *Rent by Owner Study, Executive Summary*. Presented to the Town of Vail Economic Development and Finance Departments on April 25, 2017. Reproduced with permission. Ketchum data source (not included with original table): U.S. Census Bureau, American Community Survey 5-Year Estimates, 2011-2015.

Ketchum also had a higher vacancy rate than all Wood River Valley cities except for Sun Valley (Table 2). In fact, U.S. Census and American Community Survey data indicate Sun Valley’s vacancy rate of 76% was higher than any of the mountain resort communities in this study. Bellevue and Hailey had very low vacancy rates of 6% and 7%, and high occupancy rates. In Bellevue, 55% of homes were owner-occupied, and 39% were renter-occupied. In Hailey, owners occupied 56% of homes, and renters occupied 37%. Blaine County was in the middle: it had a 41% vacancy rate, while owners and renters occupied 39% and 20% of all homes.

Table 2: Summary of Municipal Population, Housing Units, and Usage Classification in the Wood River Valley and Blaine County, Idaho: 2015

Municipality	Total Housing Units	Owner Occupied Units	Percentage of Owner Occupied Units	Renter Occupied Units	Percentage of Renter Occupied Units	Vacant Housing Units	Percentage of Vacant Units
Bellevue	949	525	55%	368	39%	56	6%
Hailey	3,295	1,851	56%	1,213	37%	231	7%
Blaine County	15,109	5,884	39%	3,040	20%	6,185	41%
Ketchum	3,857	954	25%	615	16%	2,258	59%
Sun Valley	2,630	497	19%	140	5%	1,993	76%

Source: American Community Survey 5-Year Estimates, 2011 – 2015.

Ketchum’s renters and homeowners were also affected by rising home prices, particularly among for-sale properties. These trends are explored in the following section.

Rising Home Values and Rents

Ketchum’s median home values were higher than in Blaine County and in Idaho as a whole from 1970 - 2015. Home values in Ketchum and Blaine County also grew more quickly than in Idaho (Figure 4). Ketchum’s median home value grew from \$26,500 in 1970 to \$633,700 in 2015—an increase of 2,391%. Blaine County’s median home value grew at a similar rate (2,387%), but that of Idaho in general was much lower (1,155%). The similar growth rate in Ketchum and Blaine County indicates that home values are increasing quickly in the entire Wood River Valley Region.

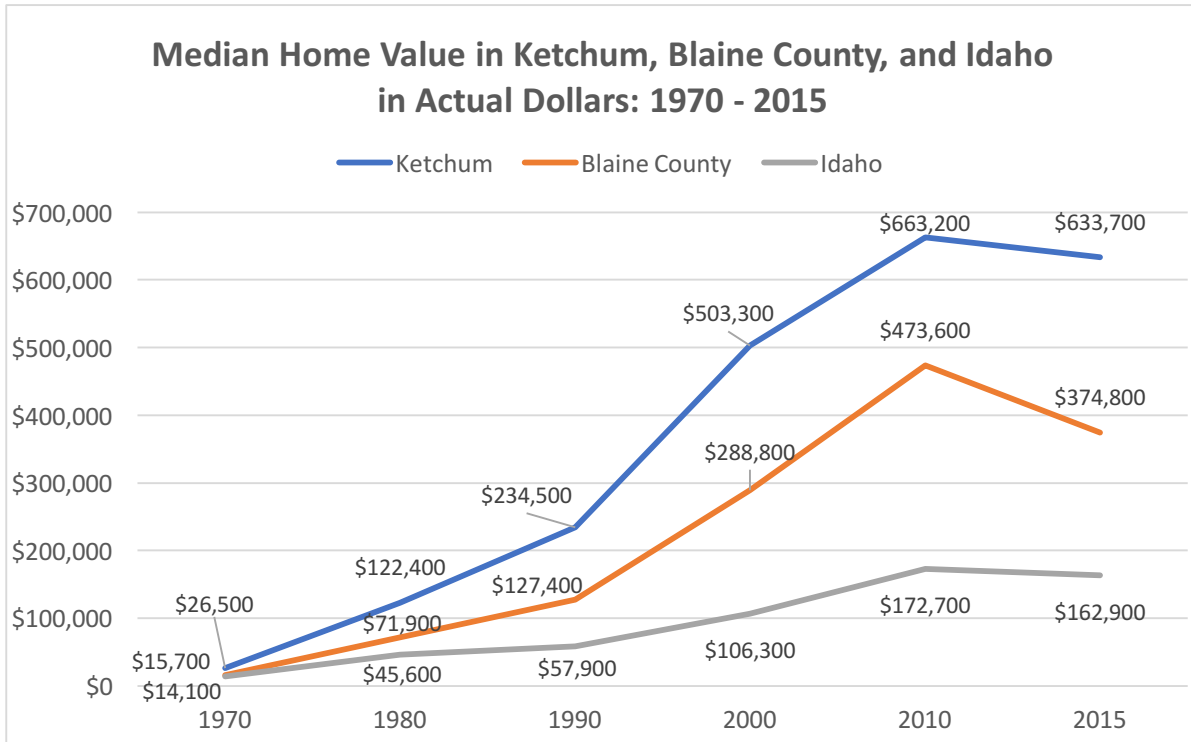


Figure 4: The median home value in Ketchum, Blaine County, and Idaho from 1970 – 2015 in actual dollars (not adjusted for inflation). Source: U.S. Decennial Census, 1970 – 2000; American Community Survey 5-Year Estimates, 2005 – 2015.

The median gross rent¹⁵ in Ketchum also increased from 1970 – 2015, but at a slower rate than the median home value. Rent was consistently higher in Ketchum and Blaine County than in Idaho (Figure 5). In 1970, median gross rent in Ketchum was \$113 per month, compared to just \$86 per month in Blaine County, and \$92 per month in Idaho. By 2015, it had grown to \$943 per month in Ketchum (a total growth rate of 835%), \$941 per month in Blaine County, and \$743 per month in Idaho (a 1,094% and 808% growth rate, respectively). Blaine County rents increased more quickly than in Ketchum and in the State of Idaho. By 2015, there was only a \$2-dollar per month difference between the median gross rent in Ketchum and Blaine County, indicating affordable rental housing may have become scarce in the Wood River Valley region.

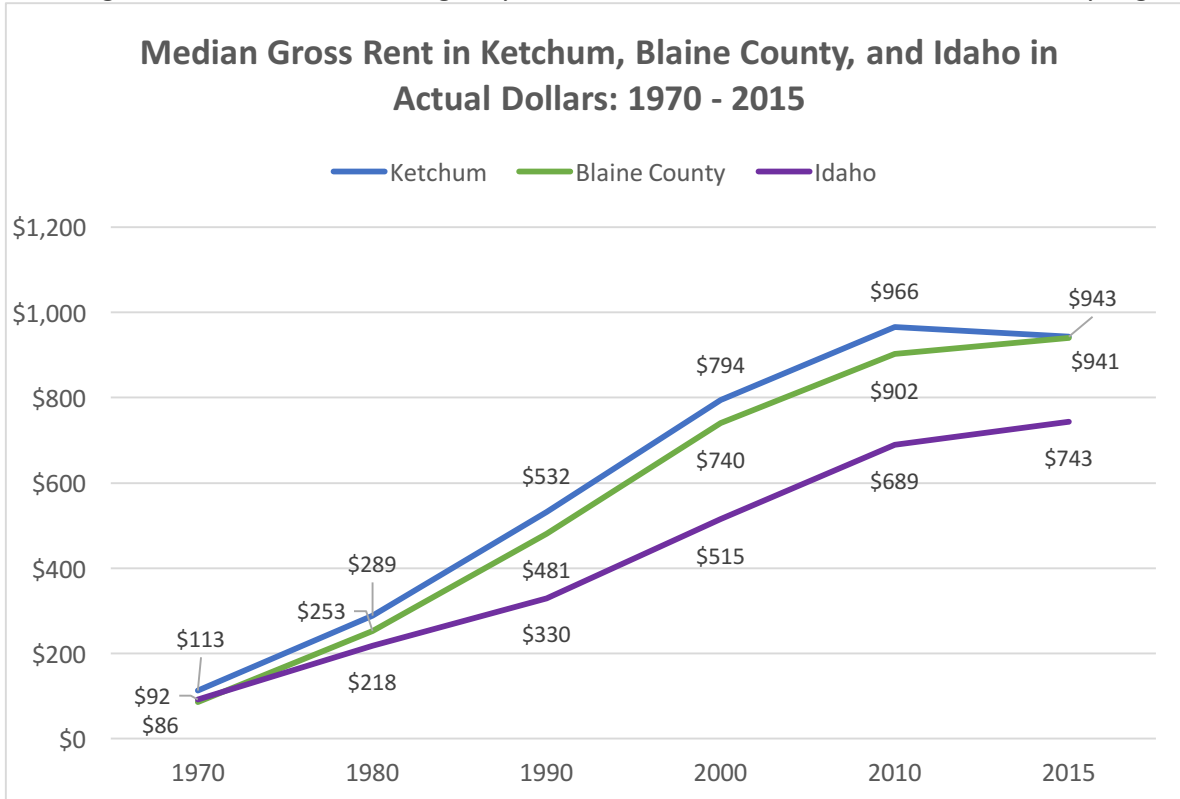


Figure 5: Median gross rent in Ketchum, Blaine County, and Idaho in actual dollars. Gross rent includes contract rent (monthly rent) plus utilities and fuel. Source: U.S. Decennial Census, 1970 – 2000; American Community Survey 5-Year Estimates, 2005 – 2015.

Growing Affordability Gap

Stagnant wages and rising home values since 1970 have created a gap between what median-income families can afford, and what homeownership opportunities are available in Ketchum. This gap has grown significantly since 1990.¹⁶ The U.S. Department of Housing and Urban Development assumes a household can afford a home costing no more than 3.5 times its annual income. The median Ketchum home value was 6.7 times greater than the median family income in 1990 and 8.9 times greater in 2015 (Figure 6). The 2015 median value of owner-occupied housing in Ketchum was an estimated \$633,700.¹⁷ However, property values ranged from \$50K to more than \$1,000,000, and only 19% of homes were worth less than \$300K.¹⁸ For-sale homes were expensive in Ketchum in relation to income in 1990, but have become even more costly since.

¹⁵ The U.S. Census Bureau calculates median gross rent for a geographic area. It includes monthly rent (contract rent) plus utilities and fuel costs.

¹⁶ U.S. Census data did not collect information on median family income in Ketchum prior to 1990 because it had fewer than 2,500 people.

¹⁷ U.S. Census Bureau. (2011 – 2015). *American Community Survey 5-Year Estimates*.

¹⁸ Unoccupied homes are not included in these calculations because the owners or renters were not present during the 2015 American Community Survey. The median value of all residential real estate is probably much higher than American Community Survey data indicate because many missing homes are expensive luxury properties.

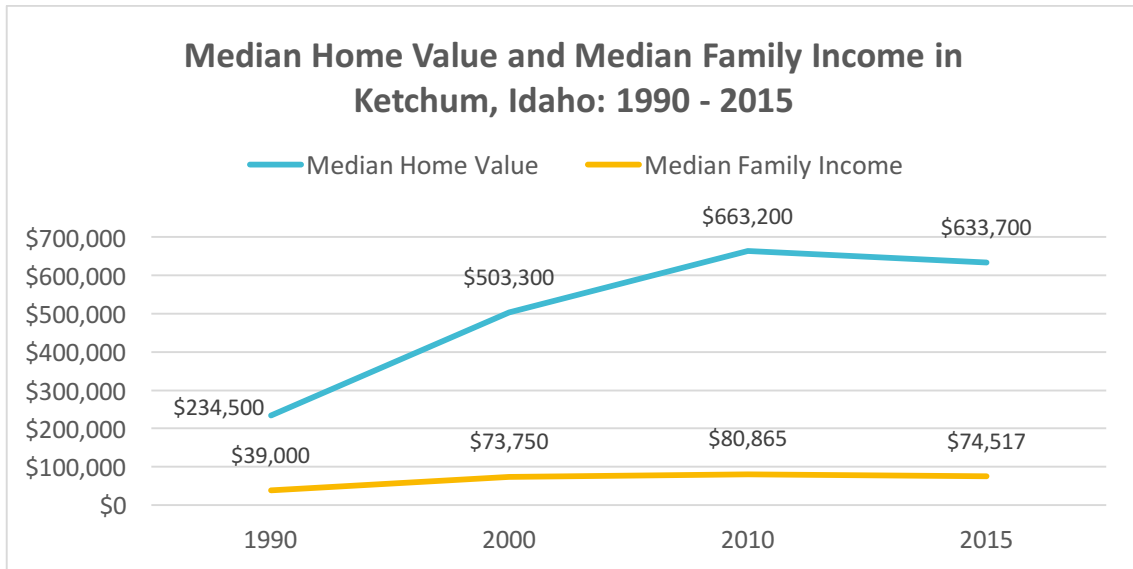


Figure 6: Median home value and median income for a family of four in Ketchum, 1990 – 2015 in actual dollars. Source: U.S. Decennial Census, 1990 – 2000. American Community Survey 5-Year Estimates, 2005 – 2015.

The gap between median-income and median home value is smaller in Blaine County than in Ketchum, but has still grown in the past 25 years (Figure 7). The median home value was 3.3 times the median income in 1990, but 5.1 times in 2015 (below its peak of 6.4 times the median income in 2010). The affordability gap is growing in Ketchum and the rest of Blaine County—an indication that finding an affordable home to purchase is become increasingly difficult.

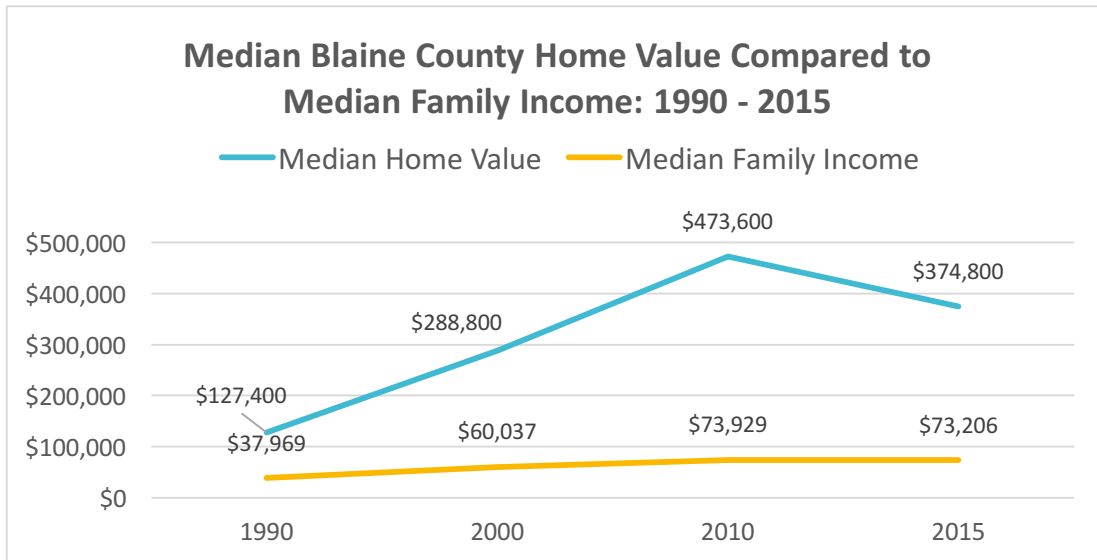


Figure 7: Median home value and income for a family of four in all of Blaine County (includes Ketchum), 1990 – 2015 in actual dollars. Source: U.S. Decennial Census, 1990 – 2000. American Community Survey 5-Year Estimates, 2005 – 2015.

Another area of concern is the fact that home values have risen much more quickly than median income in Ketchum and Blaine County than in the rest of Idaho. In 1970, the Idaho median home value of \$14,100 was only 1.68 times the median family income of \$8,381 (Figure 8). In 2016, the Idaho median home value of \$162,900 was 2.8 times the median income of \$57,573. The difference between the Idaho median home value and median family income increased from 1970 – present, but the median home value was consistently less than 3.5 times the median income. These data show the median home value was affordable to median-income Idaho families.

Median Family Income and Median Home Value in Ketchum, Blaine County, and Idaho in Actual Dollars: 1970 - 2015

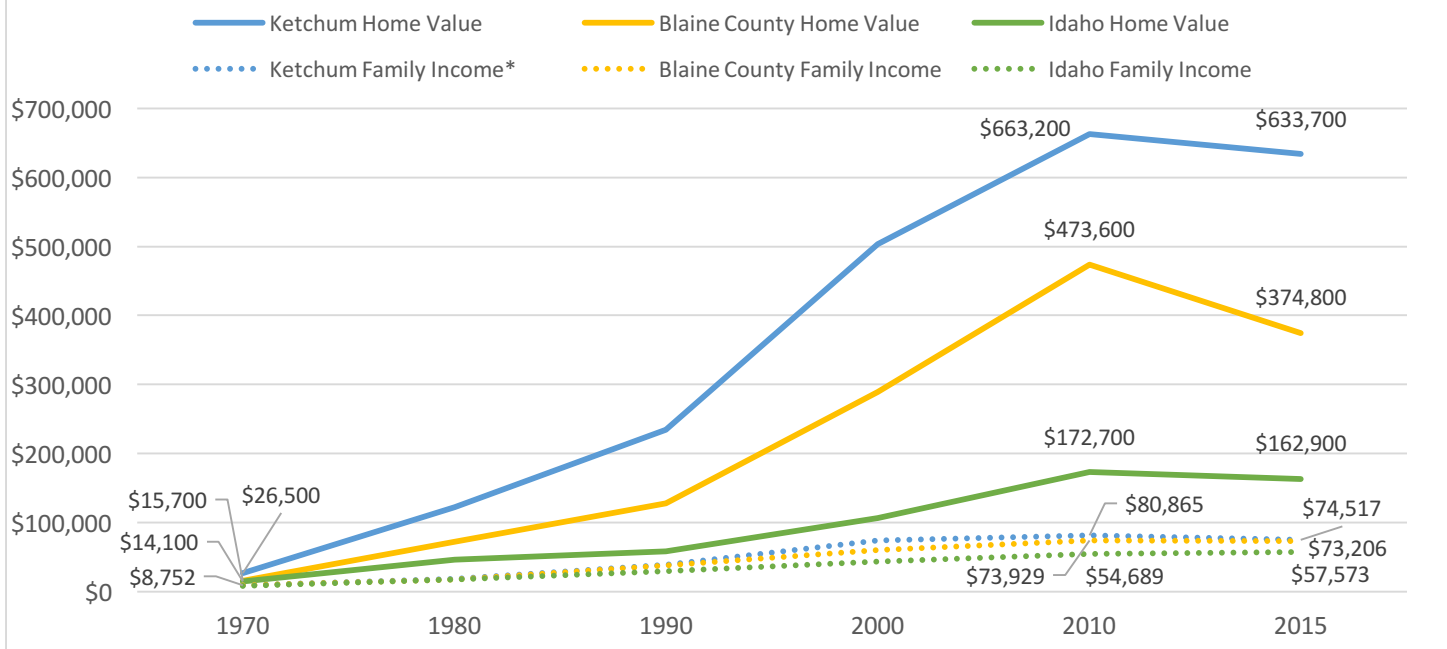


Figure 8: Median family income and home values in Ketchum, Blaine County, and Idaho from 1970 – 2015 in actual dollars. The 1970 median income for Blaine County and Idaho are not shown due to space constraints (they were \$8,580 and \$8,381, respectively). *The 1970 and 1980 Ketchum median family income is an estimate, because the U.S. Census Bureau did not collect these data in Ketchum at the time. Income was estimated by multiplying Blaine County median family income in 1970 and 1980 by the ratio of Ketchum to Blaine County median household income in 1990 (1.03). Source: U.S. Decennial Census, 1970 – 2000. American Community Survey 5-Year Estimates, 2005 – 2015.

Ketchum has become a more expensive community since 1970, especially in relation to Idaho in general. Adjusting for inflation (in August 2017 dollars) indicates median home values grew much more quickly than median income or median gross rent in Ketchum. Ketchum’s median income grew by 36%. (Table 3). However, the median home value was 286% higher in 2015 than in 1970. These data provide further evidence of a growing gap between what median income families earn and the price of available for-sale housing.

Table 3: Comparison of Median Family Income, Median Home Value, and Median Gross Rent in Ketchum, Blaine County, and Idaho: 1970 - 2015 (Adjusted for Inflation - in August 2017 Dollars)

		1970	1980	1990	2000	2010	2015	Percent Change: 1970 - 2015
Ketchum	Family Income	\$55,810*	\$54,452*	\$74,284	\$105,704	\$91,068	\$76,601	37%
	Home Value	\$168,994	\$371,006	\$446,658	\$721,364	\$746,881	\$651,929	286%
	Gross Rent	\$720	\$876	\$1,013	\$1,138	\$1,088	\$970	35%
Blaine County	Family Income	\$54,716	\$53,384	\$72,320	\$86,049	\$83,258	\$75,312	38%
	Home Value	\$100,121	\$217,936	\$242,662	\$413,928	\$533,362	\$385,581	285%
	Gross Rent	\$548	\$767	\$916	\$1,061	\$1,016	\$968	77%
Idaho	Family Income	\$53,447	\$53,020	\$56,136	\$62,333	\$61,590	\$59,229	11%
	Home Value	\$89,917	\$138,218	\$110,284	\$152,357	\$194,491	\$167,586	86%
	Gross Rent	\$587	\$661	\$629	\$738	\$776	\$764	30%

Source: U.S. Decennial Census, 1970 – 2000; American Community Survey 5-Year Estimates, 2005 – 2015; U.S. Bureau of Labor Statistics Consumer Price Index Inflation Calculator, accessed October 10, 2017.

Ketchum rents increased by almost the same rate as income (35% growth), so they appear to be more affordable. However, high for-sale prices force families onto the rental market who would otherwise purchase a home. Thus, high home values affect Ketchum renters by increasing competition for rental properties and driving up prices. Households earning less than the median income are less likely to find affordable properties.

The median family income and median home value in Blaine County also grew at approximately the same rate as in Ketchum. In 2015, the Blaine County median family income and median home value were 38% and 285% higher than in 1970. Median rent in Blaine County increased more quickly than in Ketchum, however. Blaine County median rent was 77% higher in 2015 than in 1970, compared to Ketchum's 38% increase. Prices in Blaine County are still less expensive than in Ketchum, but they are increasing rapidly. The median income and median rent in Ketchum and Blaine County were also almost identical in 2015, indicating that the idea that residents can find cheaper rentals outside of Ketchum may no longer be true.

The difference between the median income growth rate and the home value growth rate in Ketchum and Blaine County is particularly concerning when compared to the rest of Idaho. Idaho's median home value and median rent increased more quickly than the median income, but not as rapidly as in Ketchum and Blaine County. Idaho's median home value and rent were 86% and 30% higher in 2015 than in 1970, while income was just 11% higher. In fact, Idaho is a relatively inexpensive state to find rental and for-sale housing. According to a report prepared annually by the National Low Income Housing Coalition,¹⁹ Idaho renters in 2017 needed to earn the 7th lowest wage in the United States (including Puerto Rico and Washington D.C.) to be able to afford a two-bedroom rental at the Idaho Fair Market Rent (FMR).²⁰

Blaine County's 2017 FMR is 33% higher than in Idaho. If Blaine County were a state, renters would need to earn the 23rd highest wage in the country to spend no more than 30% of their income on housing. Ketchum and Blaine County residents are at a disadvantage when compared to workers in larger metropolitan areas that also have high housing costs. Ketchum's small population size and job market mean that Ketchum renters have fewer opportunities to earn the higher wages available to residents of large cities.²¹

Summary of Housing, Demographic, and Economic Trends Since 1970

Housing trends since 1970 indicate several areas of concern for Ketchum. First, the percentage of homes occupied by permanent residents decreased, while unoccupied vacation homes increased. Second, new home construction exceeded population growth, but Ketchum lost population from 2000 – 2015, perhaps due to high housing prices. Third, median home values increased faster than median income, creating a large gap between for-sale home prices and what households can afford. Fourth, Ketchum lost vacant for-rent homes since 1970. Although median family income has kept pace with median rent, a shrinking rental supply may increase prices in the future. Fifth, rents and home values in Ketchum and Blaine County increased more quickly than in Idaho in general, and rents in Blaine County grew more rapidly than in Ketchum.

The result is that there are fewer affordable rental and for-sale homes in the Wood River Valley, giving residents limited options to find more affordable housing. The next section explores more recent trends in housing affordability and availability in the for-sale and rental housing markets.

¹⁹ National Low Income Housing Coalition. (2016). *Out of Reach 2017: The High Cost of Housing*. Retrieved August 17, 2017 at http://nlihc.org/sites/default/files/oor/OOR_2016.pdf.

²⁰ Fair Market Rent (FMR) is another rental housing affordability indicator. The U.S. Department of Housing and Urban Development calculates the FMR annually. It includes the rent plus all utilities (except phone, internet, and cable) that a given housing unit would command if it were on the rental market. HUD then aggregates this data to determine the FMR on a regional and state-wide basis.

²¹ Glaeser, E., & Mare, D. (1994). *Cities and skills*. Hoover Institution Working Paper E49-11; O'Flaherty, B. (2005). *City Economics*. Cambridge, MA: Harvard University Press.

Demographic and Housing Trends in the Near-Term: 2007 – Present

Demographic and housing trends continued or accelerated in the mid-2000s. A large percentage of Ketchum households are now housing-burdened due to expensive ownership and rental markets.²² Most for-sale homes are too costly for median-income families, while the supply of long-term rental homes decreased dramatically since 2010. Median advertised rent increased more quickly in Ketchum than in Blaine County or Idaho, and far exceeded Ketchum’s median gross rent as calculated by the American Community Survey. This means that new Ketchum renters pay the highest rental costs in the region. High housing costs are concerning because they force households to choose between paying for housing and transportation, food, healthcare, and education.

Quick Facts: 2007 - Present

- Most single-family for-sale homes are out of reach of median-income families.
- Condos and townhomes are more affordable, but prices in Ketchum and Blaine County are increasing quickly.
- Long-term rental advertisements dropped precipitously.
- There are few long-term rentals advertised at affordable prices.
- New Ketchum renters pay the highest rental housing costs in the region.

Expensive For-Sale Homes Exceed Most Families’ Means

For-sale homes in Ketchum are still out of reach for most Ketchum residents. Sun Valley Board of Realtors data indicate Ketchum had the highest median single-family home price in the region at \$1,075,000 by 2016 (Figure 9). Prices fluctuated greatly since 2007, but did not drop much below \$600,000. Thus, the least expensive single-family home price in the past 10 years was still unaffordable to most Ketchum families. Families earning Blaine County’s 2016 median income for a family of four (\$78,600) were more likely to find affordable single-family homes in Hailey, with a 2016 median price of \$345,000.

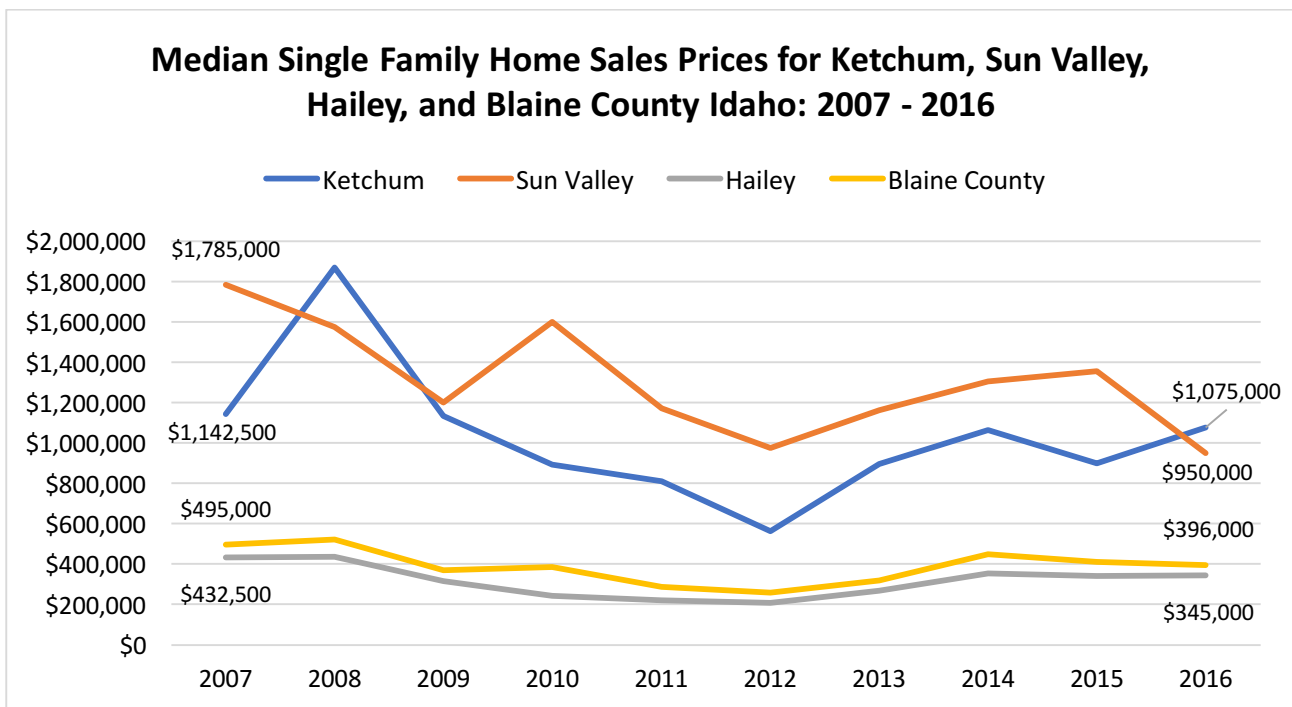


Figure 9: Median sales price for single-family homes sold in Ketchum, Sun Valley, Hailey, and Blaine County, Idaho from January 2007 – December 2016. Source: Sun Valley Board of Realtors, 2017.

²² Housing burden describes households that spend more than 30% of their income on housing costs.

Condos and townhomes in Ketchum are more affordable relative to single-family homes, but remain high compared to the region. The 2016 median price in Ketchum was \$350,000, down from the peak of \$750,000 in 2007 (Figure 10). Median condo and townhome prices in Hailey and Blaine County are more affordable at \$190,000 and \$290,000, respectively. Cheaper real estate outside of Ketchum is surely a draw for permanent residents seeking reasonably-priced homes, but rising housing prices in the Wood River Valley may hinder residents' efforts to find affordable for-sale homes.

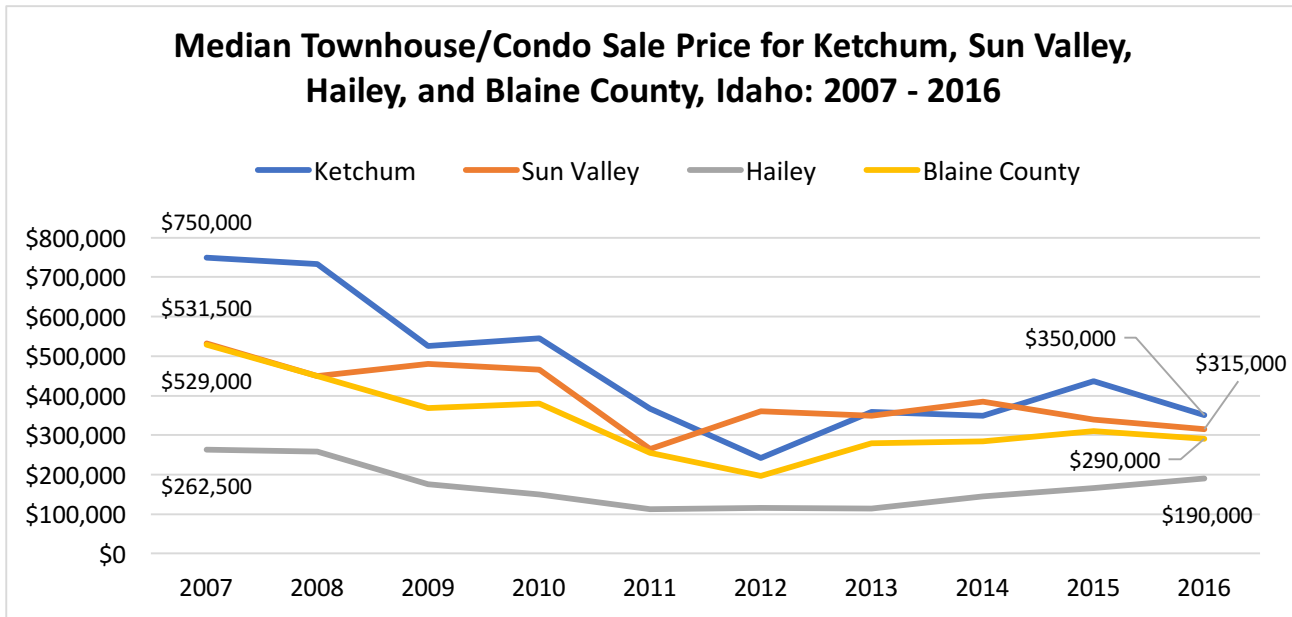


Figure 10: Median sales price for condos and townhomes sold in Ketchum, Sun Valley, Hailey, and Blaine County, Idaho from January 2007 – December 2016. Source: Sun Valley Board of Realtors, 2017.

The problem with smaller condos and townhomes in Ketchum or elsewhere is that they are less likely to meet families' housing needs and preferences. Of the 42 residential properties for sale under \$500,000 in Ketchum on one day in February 2017, 37 were condos, four were townhomes, and one was a single-family home. Most properties were also too small for households with more than two people. They ranged from 225 – 1,500 livable square feet (with median of 779 square feet), and 45% were one-bedroom or less. Households that need more space or simply prefer a single-family home cannot find what they need in Ketchum, and move to Hailey, Bellevue, or unincorporated areas of Blaine County. However, prices in these areas are also rising.

Home Prices Exceed What Median Income Households Can Afford

A comparison of Ketchum median home sales prices and median family income further illustrates the lack of *affordable* ownership options to meet housing needs. Figure 11 compares the median sales price for Ketchum single-family homes and condos/townhomes from 2007 – 2016 to the 2016 Area Median Income of \$78,600 for a family of four in Blaine County.²³ Median-income families could not afford the monthly mortgage payment for any median-sales-price-single family home without spending more than 30% of their annual income on housing. To afford monthly mortgage payments, these households would need to earn an annual income of at least \$174,560 in 2007, \$85,920 in 2012, and \$164,240 in 2016, which translates to 222%, 109%

²³ This research uses the Blaine County median income for a family of four in affordability calculations because it is the standard household size and type that the U.S. Department of Housing and Urban Development (HUD) and local housing affordability actors use to calculate median income for affordability. This calculation is not available for Ketchum because it is a small metropolitan area. However, the American Community Survey indicates the 2015 family median income in Ketchum (for families of all sizes) was \$74,517—slightly lower than the 2016 Blaine County median income for a family of four of \$78,600 (the 2016 Ketchum median family income was not available at the time of publication). For more information on how HUD calculates income limits, see <https://www.huduser.gov/portal/datasets/il/il2016/2016summary.odn>.

and 209% of the median income for a family of four, respectively. Potential causes high for-sale home prices are explored in the *Probable Causes of Housing Unaffordability* section later in this report.

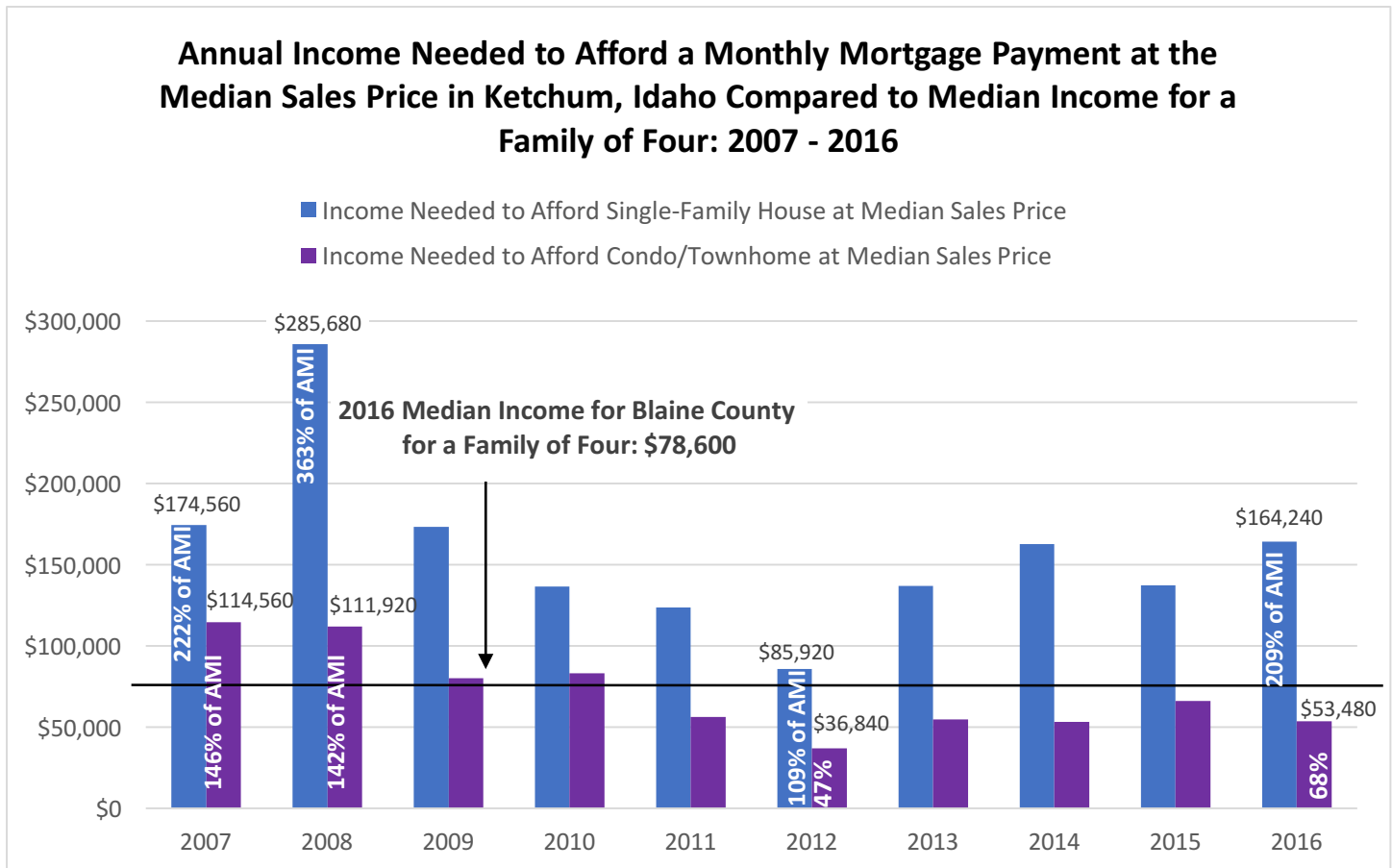


Figure 11: Annual income needed to afford a monthly mortgage payment for the median-priced single-family home and condo/townhome in Ketchum, compared to the Blaine County 2016 Area Median Income (AMI) of \$78,600 for a family of four. Monthly mortgage payments are affordable if they do not exceed 30% of the annual household income. Source: Sun Valley Board of Realtors, 2017; Department of Housing and Urban Development, 2016.

Fortunately, condos and townhomes were more affordable to median-income families during the study period. Families could afford the median condo or townhome from 2011 – 2016 in theory, but job losses and wage cuts during the Great Recession may have impacted residents’ ability to save for a home and qualify for a mortgage. In the future, rising condo and townhome costs may force these households to choose between high housing costs in Ketchum, or lower housing costs (but higher transportation costs) outside the City.

It is also important to note that the assumptions used in mortgage calculations have a big impact on whether a household can afford a home. Calculations in Figure 11 above assume a 30-year, fixed-rate mortgage with 4% interest, and a 20% down payment, but do not include utilities, property taxes, insurance, homeowners’ association fees, private mortgage insurance, and other housing costs. These costs can add hundreds of dollars to monthly housing payments, but vary widely by property, so are not included here.

Down payment also has a big effect on mortgage costs. Anything less than a 20% down payment requires private mortgage insurance and increases the mortgage amount. A household’s ability to save for a down payment depends on its income, debts, and other costs, and it may be difficult for households to save 20%. It is reasonable to assume actual monthly housing costs are hundreds of dollars higher for most households, and annual income needed to afford monthly housing costs is, in fact, higher than Figure 11 suggests.

The principal issue facing Ketchum residents is the lack of *affordable* homeownership opportunities, not a lack of ownership opportunities. Real estate sales data demonstrates there are plenty of homes for sale.²⁴ There were 938 residential properties sold from 2011 – 2016, which is an average of 156 per year. During this period, 304 sales were single-family homes (60.8 sales per year on average) and 634 condos or townhomes (126.8 average sales per year). Residential real estate sales also grew by 20%, and were likely bolstered by growth in the housing market and economy.

High Housing Burden Among Ketchum’s Homeowners

High home values mean Ketchum homeowners have high housing costs, particularly those with a mortgage. Mortgage holders had median monthly housing costs of \$2,708 per month in 2015, while median costs for non-mortgage holders were only \$731 per month.²⁵ Of the 538 homeowners with a mortgage, 36% spent more than \$3,000 per month on housing. In contrast, only 26% of the 416 homeowners without a mortgage spent more than \$1,000 per month on housing.

Owing to the additional carrying cost, homeowners with a mortgage need to earn much more than homeowners without a mortgage to avoid becoming housing-burdened. Owners with a mortgage must earn at least \$83,120 per year (105% of the 2016 median income for a family of four) to cover median housing costs and not spend more than 30% of their annual income on housing. Those without a mortgage only need to earn \$29,240 per year (37% of the family median income). Unfortunately, many homeowners are housing-burdened because their incomes are not high enough to cover housing costs. Eighty-percent of homeowners with a mortgage were housing burdened in 2015, compared to only 24% of homeowners without a mortgage. Non-mortgage holders had a lower housing burden rate either because they purchased a property with cash, or they paid off their mortgage.

The gap between annual income and median homeowner housing costs may be even greater than the data suggest. A household of four earning the 2016 median income could only afford monthly housing costs of \$1,965—an amount far below mortgage-holders’ median costs. Low-income residents—families earning less than 80% of the median income—could afford monthly housing costs up to \$1,572. Extremely low-income residents who earn no more than 30% of the median family income could only afford the lowest monthly housing costs for homeowners without a mortgage—\$589 per month. However, homeownership is out of reach for most—if not all—low-income households because most do not earn enough to save for a down payment or qualify for a mortgage. Therefore, they are forced to turn to the rental market.

Decline of Long-Term Rentals in Ketchum and Blaine County

The number of long-term rental homes available to Ketchum residents dropped precipitously in recent years. Vacant homes for-rent decreased by 83.5% from 2009 – 2015—dropping from 212 to just 35 in only six years²⁶ (Table 4). At this rate, Ketchum lost an average of 29.5 long-term rental units per year, and Ketchum’s rental vacancy rate declined.²⁷ In 2009, an estimated 12.3% of all occupied homes were either vacant for-rent, or rented but not occupied. By 2015, the rate had dropped to just 4.8%, which is lower than what experts consider to be healthy vacancy rate of 6-7%.²⁸

²⁴ Sun Valley Board of Realtors. (2017). Ketchum residential real estate trends: 2011 – 2016. Unpublished.

²⁵ U.S. Census Bureau. (2011 – 2015). American Community Survey. 5-Year Estimates.

²⁶ U.S. Census Bureau. (2005 – 2015). American Community Survey. 5-Year Estimates.

²⁷ The rental vacancy rate is the percentage of all *occupied* homes that are either vacant for-rent, or rented but not yet occupied.

²⁸ Kasuli, K. (2016, April 20). *How Vacancy Rate Points to an Unaffordable Housing Market*. Retrieved May 2 from <http://www.northeastern.edu/rugglesmedia/2016/04/20/how-vacancy-rate-points-to-an-unaffordable-housing-market/>.

Table 4: Ketchum Rental Vacancies: 2009 – 2015

	2009	2010	2011	2012	2013	2014	2015
Vacant for rent	212	160	96	30	39	36	35
Rented, not occupied	0	0	59	57	75	73	73
Rental vacancy rate (among occupied homes)	12.3%	8.5%	7.7%	4.3%	5.5%	5.1%	4.8%

Source: American Community Survey 5-Year Estimates, 2005 – 2015.

Rental vacancies also decreased across Blaine County from 2009 - 2015. There were 462 homes for rent in 2009, but just 99 in 2015—a 79% drop (Table 5). At this rate, Blaine County lost an average of 56.5 long-term rental homes per year, and the rental vacancy rate decreased from 10.7% to 2.9%. A low vacancy rate signals a tight housing market: there are more renters than homes available, so it is difficult to find a rental home. Ketchum’s low vacancy rate means renters are more likely stay in their homes even if their situation changes. If a family grows or its income shifts, the home may no longer meet their housing needs; however, they may stay longer than they would otherwise due to the transactional costs of securing a new home and moving.

Table 5: Blaine County Rental Vacancies: 2009 - 2015

	2009	2010	2011	2012	2013	2014	2015
Vacant for rent	462	469	365	361	249	139	99
Rented, not occupied	123	84	131	133	104	97	79
Rental vacancy rate (among occupied homes)	10.7%	9.7%	8.4%	8.5%	6.0%	4.1%	2.9%

Source: American Community Survey 5-Year Estimates, 2005 – 2015.

Blaine County Housing Authority data on the total number of long-term rental listings posted in the newspaper affirms the loss of long-term rental units.²⁹ Ketchum had an average of 5.8 long-term rental newspaper listings per month in 2012 but only 3.2 in 2016. In total, there were 212 fewer total long-term rental listings in 2016—a 73% loss (Table 6). On average, Ketchum lost 42.2 newspaper listings per year—four times the average annual losses in vacant for-rent homes from 1990 - 2015. Most losses were in two bedroom homes, one-bedroom homes, and studios—properties most likely to be affordable to Ketchum residents due to their small size. The gradual loss of vacant for-rent units, and the more recent, rapid losses in newspaper rental listings, are of great concern because they indicate a shrinking long-term rental supply in Ketchum.

Table 6: Decrease in Advertised Long-Term Rentals in Ketchum: 2012 - 2016

	2012	2013	2014	2015	2016	Total Decrease: 2012 - 2016	Percent Decrease: 2012 - 2016
Studio	38	19	15	10	4	-34	-89%
One-Bedroom	70	47	57	32	12	-58	-83%
Two-Bedroom	124	61	80	44	16	-108	-87%
Three-Bedroom	54	32	40	52	47	-7	-13%
Four+ Bedroom	5	0	0	0	0	-5	-500%
Total Listings	291	159	192	138	79	-212	-73%

Source: Blaine County Housing Authority, 2017.

Data on long-term rental newspaper listings also affirms findings from the American Community Survey: renters in the Wood River Valley have fewer long-term rental options than they did several years ago. The

²⁹ Blaine County Housing Authority data on long-term rental advertisements in local newspapers is not available before 2012.

Wood River Valley averaged 17.4 long-term rental newspaper listings per month in 2012, but only 8.4 in 2016. Average monthly newspaper listings declined 45% in Ketchum and 52% regionally in just five years (Figure 12).

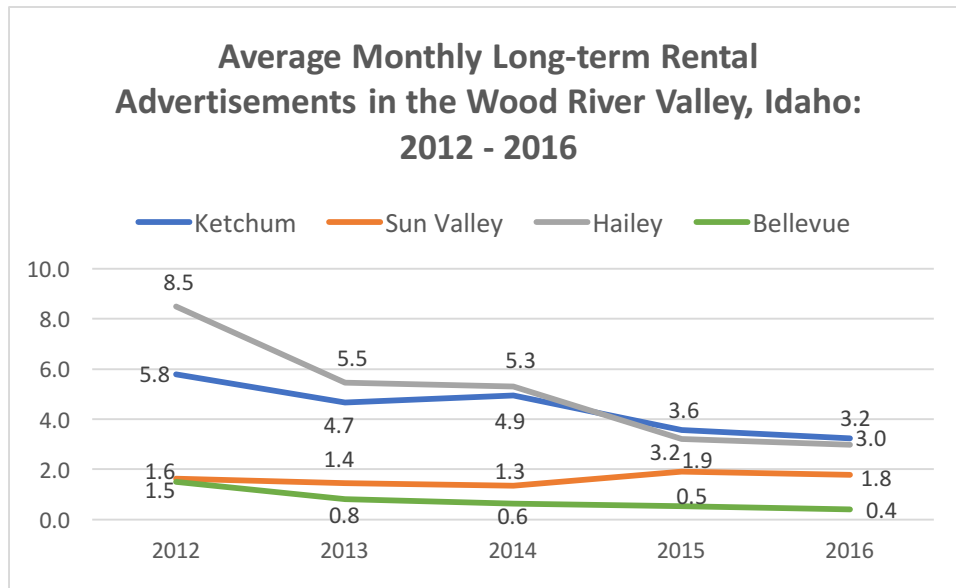


Figure 12: The average number long-term rentals advertised per month in local newspapers in Ketchum, Sun Valley, Hailey, and Bellevue, Idaho, 2012 – 2016. Source: Blaine County Housing Authority, 2017.

Rising Rents

New Ketchum renters bear the highest rental housing costs in the region. Ketchum’s 2016 median advertised rent was 150% higher³⁰ than its 2015 median gross rent of \$943 per month.³¹ The median 2016 advertised rent was also 115% higher than the Idaho Fair Market Rent (FMR),³² and almost 50% higher than Blaine County’s FMR in 2016 (Figure 13). In comparison, Ketchum’s 2012 median advertised rent was only 6% higher than the Ketchum median gross rent, 60% higher than Idaho’s FMR, and 13% higher than Blaine County’s FMR. Thus, housing costs for new Ketchum renters have increased dramatically since 2012.

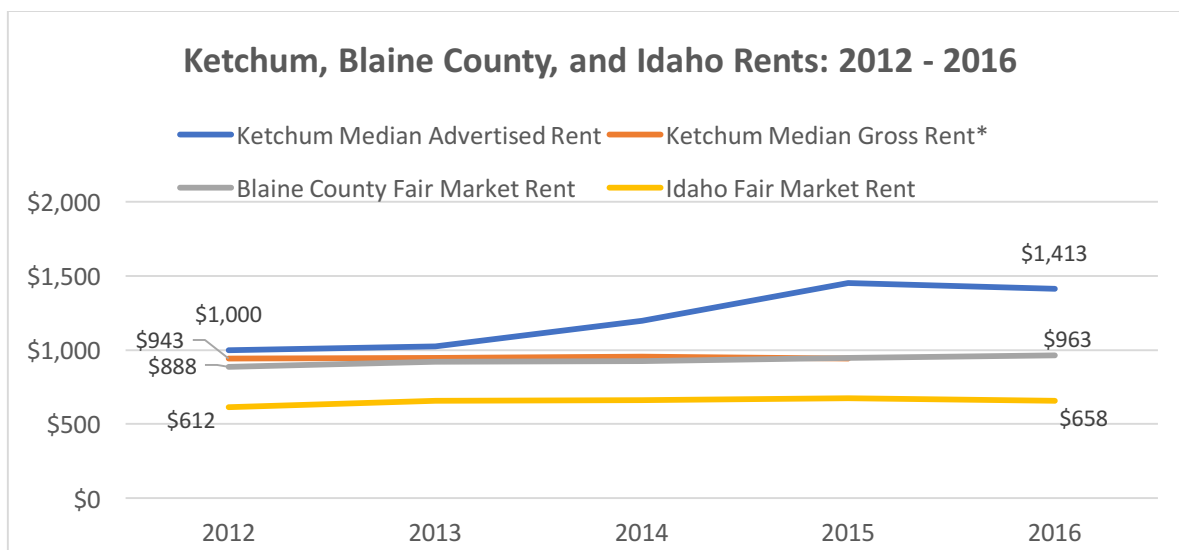


Figure 13: Median advertised rent and median gross rent in Ketchum compared to the Fair Market Rent for Blaine County and the State of Idaho, 2012 – 2016. *Median gross rent in Ketchum was not available for 2016 at the time of publication. Source: American Community Survey 5-Year Estimates, 2008 – 2015; Blaine County Housing Authority, 2017; U.S. Department of Housing and Urban Development, 2017.

³⁰ Blaine County Housing Authority (2017). Long-Term Rental Statistics from November 23, 2011 - February 24, 2017. Unpublished.

³¹ The U.S. Census Bureau calculates median gross rent for a geographic area. It includes monthly rent (contract rent) plus utilities and fuel costs.

³² The Fair Market Rent (FMR) is another rental housing affordability indicator. For more information, see footnote 20 on page 15.

Loss of Affordable Rentals

The number of long-term rentals affordable to median-income families of four decreased by 86% since 2012. There were 273 affordable rental advertisements in 2012, compared to only 38 in 2016 (Figure 14).³³ The marked decrease in affordable homes is concerning. A lack of affordable rentals in Ketchum’s may force these households to seek cheaper housing elsewhere.

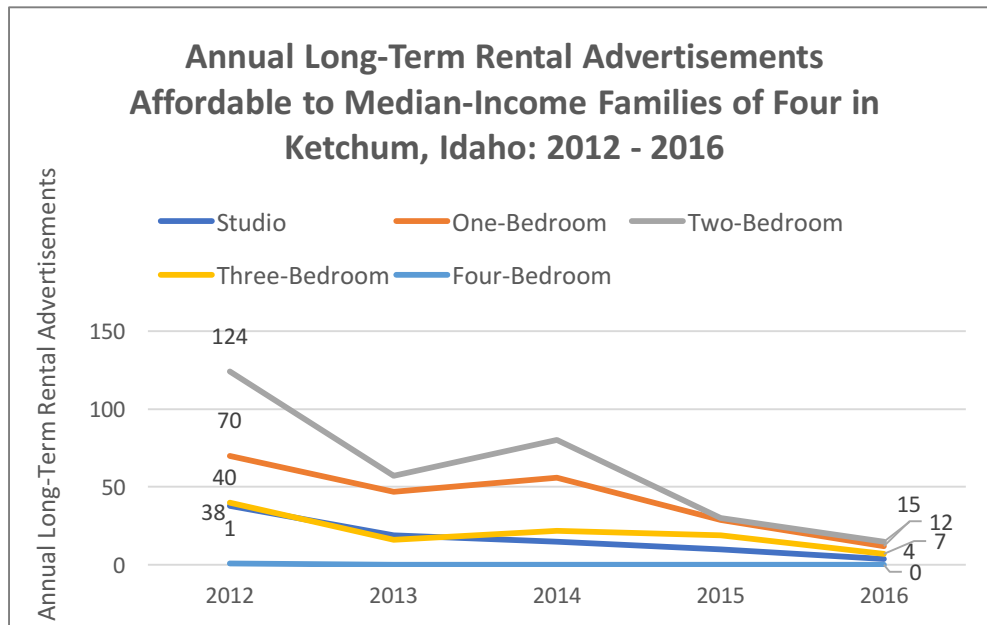


Figure 14: The number of long-term rentals advertised as prices affordable to median-income households of four from 2012 – 2016. Source: Blaine County Housing Authority, 2017.

Income needed to afford median advertised rent in Ketchum increased from 2012 – 2016. Median income families of four could afford the median advertised rent only for studio, one-bedroom, and two-bedroom homes (Table 7). However, annual income needed to afford rental housing grew by up to 79%. The biggest change was in studios, and one and two-bedroom homes. Three-bedroom homes were only affordable in 2012. No four-bedroom homes were affordable to median-income families during this period.

Table 7: Annual Salary Needed to Afford Median Advertised Rent in Ketchum: 2012 – 2016*

	2012	2013	2014	2015	2016	Percent Change
Studio	\$24,000	\$24,000	\$26,200	\$28,200	\$30,520	79%
One-Bedroom	\$28,000	\$30,600	\$34,000	\$41,000	\$40,000	70%
Two-Bedroom	\$40,000	\$41,000	\$47,920	\$58,000	\$56,520	71%
Three-Bedroom	\$60,000	\$79,000	\$77,000	\$99,000	\$101,880	59%
Four-Bedroom	\$140,000	NA	NA	NA	NA	NA

Affordable to a household earning the 2016 Blaine County median income of \$78,600 for a family of four (they spend no more than 30% of income on housing). Prices that are unaffordable to these households (they spend more than 30% of income on housing). *These calculations do not include utilities, renter’s insurance, and other monthly housing costs, so the income needed to afford housing is higher than these calculations suggest. Source: Blaine County Housing Authority, 2017; U.S. Department of Housing and Urban Development, 2017.

³³ Blaine County Housing Authority (2017). Long-Term Rental Statistics from November 23, 2011 - February 24, 2017. Unpublished.

Housing Burden Among Ketchum's Renters

Many Ketchum renters are housing-burdened because they settle for a home they can find, not necessarily a home they can afford. American Community Survey data indicate 32% percent of Ketchum renters (196 households) were housing burdened in 2015. One hundred and eighty-one renters spent \$1,000 or more per month on housing, while 377 spent \$500 - \$999. Only 57 renter households spent less than \$500 per month.

Summary of Housing, Demographic, and Economic Trends Since the Mid-2000s

Rising housing costs have accompanied losses in the supply of affordable for-sale and rental properties. Wages that have not kept pace with housing costs exacerbate this trend. Housing is not a luxury good, however; everyone must find a place to live. Ketchum's renters and homeowners have high housing burden rates, and must choose between paying for housing and meeting other needs. For-sale and rental properties affordable to median-income families in Ketchum and Blaine County are dwindling, and residents have fewer viable housing options. High housing prices cause Ketchum renters and homeowners to seek more affordable housing elsewhere, either in the Wood River Valley, or farther away. There are many potential causes of housing unaffordability and unavailability in Ketchum, several of which are explored in the next section.

Probable Causes of Housing Unaffordability

There are several likely causes of housing unaffordability and unavailability in Ketchum. In the long-run, high demand—particularly non-local demand—for residential real estate and vacation homes has probably contributed to home values that have increased far more quickly than median income since 1970. Other long-term factors include high land and construction prices, and zoning, regulatory, and other mechanisms that fail to incentivize the production of sufficient workforce housing. Some short-term rentals also appear to contribute to increased housing costs and decreased availability in the long-term rental and for-sale markets since the rise of the short-term rental market in 2010. The ways in which these trends seem to play out in Ketchum are explored below.

Vacation Homes

Vacation homes are a likely factor behind long-term growth in housing prices and decreases in homes occupied by permanent residents. First, non-local demand for vacation homes has increased greatly since 1990, although it was probably present as early as 1970. Basic microeconomic theory suggests that higher competition leads to higher prices. Therefore, high demand—particularly non-local demand—for vacation homes may play an important role in growing overall housing prices as prospective homeowners out-bid each other to secure desired properties. Second, some vacation homeowners purchase older, smaller, and more affordable condominiums, thereby removing these properties from the market. Third, vacation homeowners from major metropolitan areas have the potential to earn much higher incomes than residents of a small town like Ketchum, and have the potential to out-bid permanent residents, and thereby drive-up overall housing prices. Lastly, anecdotal evidence suggests vacation homeowners who commission the construction of expansive, high-end luxury homes that would not be affordable to permanent residents likely skew the home construction market upwards, leading home-construction businesses to prefer to work on these high-profit-margin properties.

Growth in Non-Local Demand

U.S. Census data indicate a long-term rise of vacation homes, as discussed in the *Demographic and Housing Trends in the Long-Term* section. New housing outpaced population growth because most new homes were vacation homes. From 1970 – 2015, Ketchum added 637 new homeowners, but 2,373 new homes. By 2015, vacation homes comprised 50% of all homes. Owner and renter-occupied housing fell to 41% of all homes.³⁴

Idaho’s homeowner exemption property-tax relief rates provide evidence of non-local demand on the market for more affordable properties. The owners of 33 of the 42 homes for sale in Ketchum under \$500,000 in February 2017 reported their homeowner exemption status relative to the property’s assessed value. Of these, only 14 took the exemption (42%).³⁵ The homeowner exemption can only be taken for a primary residence, so it clarifies the primary or secondary status of the home. The low homeowner exemption rate points to a high percentage of non-local ownership in Ketchum’s more affordable for-sale market.

Quick Facts: Causes of Housing Unaffordability

- Vacation homes may: 1) grow demand for residential properties and increase housing prices; 2) take more affordable homes off the market; and 3) contribute to the decline resident-occupied homes since 1970.
- Short-term rentals may: 1) decrease availability of long-term rentals and grow rental housing costs; 2) allow homeowners to earn extra income and grow for-sale housing costs; and 3) take affordable homes off the market.
- The workforce housing build-rate is too low to meet housing needs. Causes include high land and construction prices, and zoning, regulatory, funding, and legal barriers.
- A healthy economy and housing market also grows housing demand and prices.

³⁴ U.S. Census Bureau. (1970, 1980, 1990, 2000). U.S. Decennial Census. U.S. Census Bureau. (2005 – 2015). 5-Year Estimates.

³⁵ Sun Valley Board of Realtors. (2017). Residential real estate in Ketchum for-sale on February 14, 2017. Unpublished.

Properties advertised on the short-term rental hosting site VRBO in fall 2016 provide additional evidence of the rise of non-local residential ownership since 1990. VRBO data indicates many properties that are now used as short-term rentals were probably purchased initially as vacation homes, particularly those bought prior to the sharp rise of the short-term rental market in Ketchum in 2010. This section explores how the use of these properties as vacation homes has likely impacted housing affordability. See the *Short-Term Rentals* section on page 28 for a discussion on the different potential impacts short-term rentals on housing affordability.

Most properties advertised on VRBO in fall 2016 were purchased after 1989, when out-of-state ownership started to grow dramatically (Figure 15). Ninety percent of properties were owned by someone with a permanent residence outside of Ketchum/Sun Valley: 60% of all property owners lived outside of Idaho, 30% of were in another part of Idaho, and 10% lived in Ketchum or Sun Valley. Out-of-state owners lived primarily in California and Washington State, although they represented at least 17 U.S. states and seven foreign countries.

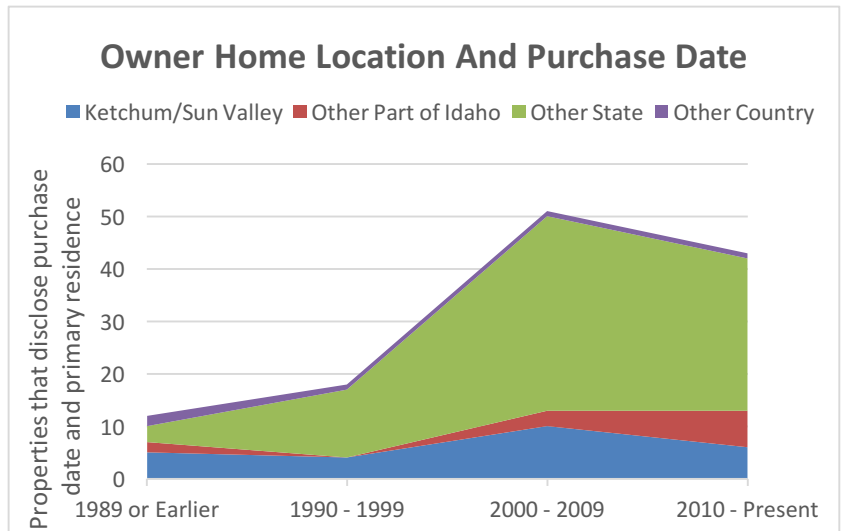


Figure 15: Owner home location by purchase date for properties for which this information is known. Sample size = 124. Source: Vacation Rental By Owner, 2016.

Current land ownership patterns provide further evidence of non-local demand for real estate and land in Ketchum. Landowners from outside of Ketchum owned 64% of all parcels in early 2017 (Figure 16) and 76% of the total land area (Figure 17). Owners with out-of-state mailing addresses owned the highest share of land in Ketchum: 42% of all parcels, and 43% of the total land area. Owners with a Ketchum mailing address owned 36% of all parcels, but only 24% of the total land area. Wood River Valley residents and other Idahoans owned the remaining land. Wood River Valley residents and other Idahoans owned the remaining land.

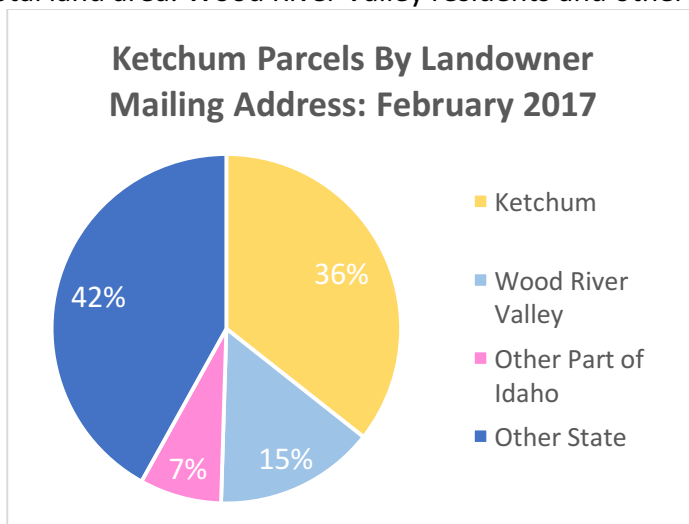


Figure 16: Breakdown of Ketchum parcel ownership by owner mailing address (4,518 parcels total). Source: Blaine County GIS Department, 2017.

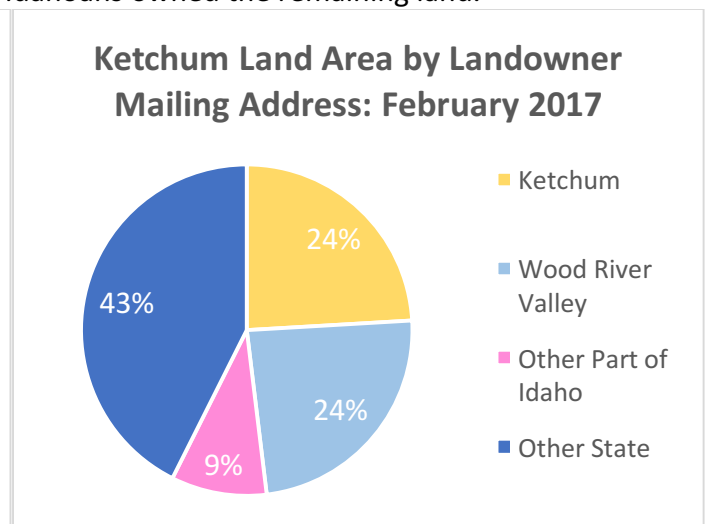


Figure 17: Breakdown of Ketchum land ownership by owner mailing address (82,073,582 square feet of land). Source: Blaine County GIS Department, 2017.

The map on the next page shows how landownership is distributed within City limits (Figure 18). This map includes all public and private land. Local and non-local landowners are found throughout Ketchum’s neighborhoods, though there are several large non-Ketchum-owned large parcels along the City boundaries.

In-State and Out-Of-State Land Ownership in Ketchum, Idaho in February, 2017

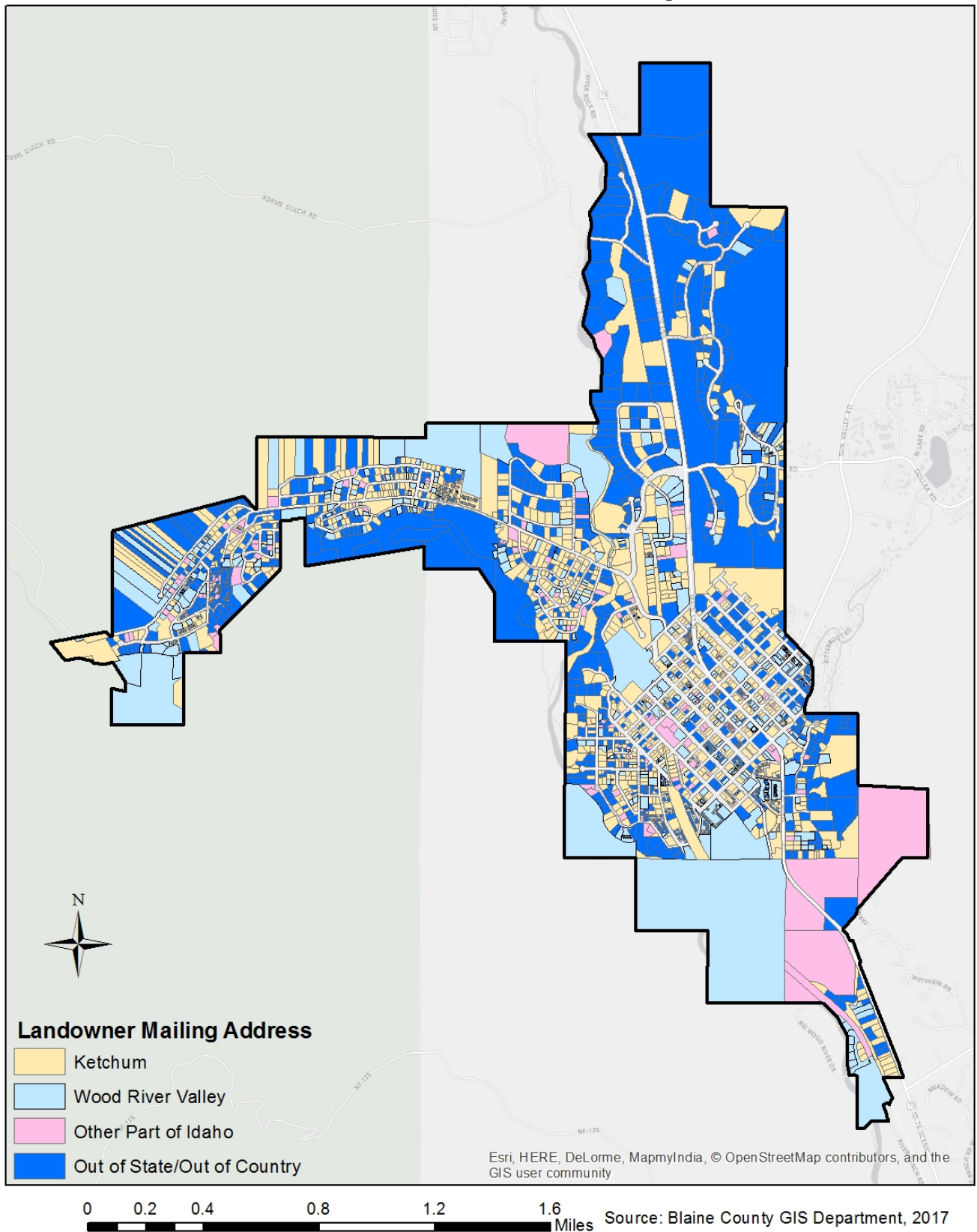


Figure 18: Ketchum parcel ownership categorized by landowner mailing address. Source: Blaine County GIS Department, February 2017.

Purchase of Smaller, Older, and More Affordable Properties

Many vacation homes that are now also used as short-term rentals are smaller, older, and more affordable properties. There were 252 condos and townhomes in Ketchum on VRBO in fall 2016, compared to just 80 single-family homes.³⁶ Seventy-six percent of these properties were purchased after 1989 (Figure 19). Further, 79% of listings had three bedrooms or less (262 properties), and 46% had two bedrooms or less (153 properties). Among properties with documented square footage and construction year,³⁷ 63% were 2,000 square feet or less (209 properties), and 59% were built prior to 1990³⁸ (196 properties). Most of these older and smaller condos and townhomes would probably be an affordable home for median-income Ketchum families if they were on the for-sale or long-term rental markets.

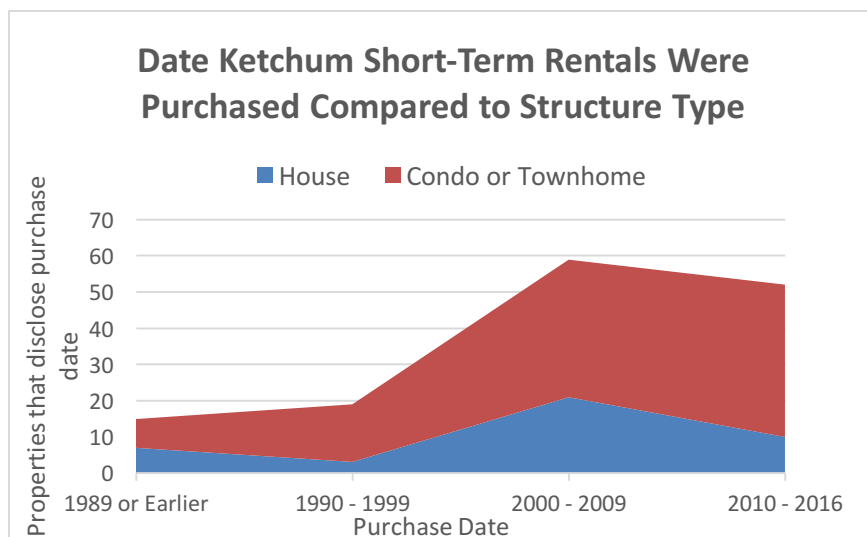


Figure 19: Growth of the condo and townhome market as demonstrated by the property purchase date over time. Sample size = 145. Source: Vacation Rental By Owner, 2016.

Income Inequality Between Large Metropolitan Areas and Small Towns/Rural Areas

Income inequality between large metropolitan areas and small towns like Ketchum may add another dimension to Ketchum's housing market when seasonal residents and investors purchase vacation homes. Research demonstrates workers in large cities earn about 10% more than workers in smaller cities, and 34% more than workers outside of cities.³⁹ Higher wages are due to something called agglomeration economies: workers in cities are simply more productive and are paid more for it. Proximity to other workers means they are more likely to share ideas, learn from each other, and specialize, while firms are more likely to find the workers they are looking for.⁴⁰

The wage premium of cities (and particularly large metropolitan areas) exists even when controlling for higher living costs. Residents of large metropolitan areas have greater opportunities to accumulate wealth than Ketchum residents do, given Ketchum's small size and geographic isolation. Higher wages in cities may provide non-locals the means to purchase expensive vacation homes, and out-compete permanent Ketchum residents.

In conclusion, vacation homes probably contribute to housing unaffordability and unavailability. High demand, particularly from sources outside of Ketchum, likely increases competition and drives up overall housing and land costs. The vacation home market also appears to remove some affordable properties from the local housing market. Several sources support this theory. U.S. Census data demonstrates growth in vacation homes

³⁶ VRBO requires all hosts to provide information on property type. Property type is self-selected, however, and may not match the City of Ketchum's definition of that property (e.g. it may be advertised as a condo but is in fact a townhome according to City definitions).

³⁷ Information about each property varied depending on what the host disclosed. All properties advertised property type, number of bedrooms and bathrooms, whether long-term renters were welcome, whether the property was owner or manager-operated, the approximate location (within ½ mile), and the VRBO listing number. Most properties advertised an average nightly price, and a nightly low and high price (which varied depending on the season). One-third to half provided disclosed square footage, purchase date, owner location, and owner use of the property. 54% advertised a weekly rate, and 22% advertised monthly rent. When possible, listings were cross-referenced with City and County data to generate additional property characteristics.

³⁸ Of the 178 properties for which construction year information was available, 162 are condos or townhomes.

³⁹ Glaeser, E., & Mare, D. (1994). Cities and skills. Hoover Institution Working Paper E49-11.

⁴⁰ O'Flaherty, B. (2005). *City Economics*. Cambridge, MA: Harvard University Press.

since 1990, while VRBO data indicate a rise in non-local ownership in the same period. Homeowner exemption and parcel data also show high current rates of non-local ownership. Some vacation homes are used as also short-term rentals, however. The next section explores short-term rentals as a possible cause of housing unaffordability and unavailability in both the long-term rental and homeownership markets.

Short-Term Rentals

Short-term rentals are another likely cause of housing unaffordability in Ketchum, particularly since the rise of the short-term rental market starting in 2010. Short-term rentals are generally rented for 30 consecutive nights or less, usually by tourists, and are distinct from long-term rentals (six to 12 month leases) and seasonal rentals (one to four month leases, usually in the summer and winter peak seasons). The theory that short-term rentals contribute to housing unaffordability and unavailability in Ketchum is based on studies in other cities that confirm this relationship. Key findings from these studies are summarized below.

Research on Short-Term Rentals Finds Connection to Increasing Housing Costs, Lower Availability

Research studies confirm several ways in which short-term rentals contribute to housing unaffordability.⁴¹ First, home-sharing platforms (including Airbnb and VRBO) reduce market frictions, and make it easier to search for and book a short-term rental. As the number of short-term rentals increases, the tourism and rental markets increasingly overlap. Rents escalate because long-term renters compete with higher nightly short-term rates. Commercial operators often set nightly prices based on hotel room nights, not the value of the apartment on the long-term market. Second, rents also increase when landlords convert long-term rentals to short-term rentals because they reduce the supply of long-term rentals. The long-term rental supply is fixed in the near-term (it takes a long time to build new homes), so prices go up when residents compete for fewer homes. Third, short-term rentals raise the value of for-sale homes because they allow homeowners to earn short-term rental income from their properties.

One research team found evidence that short-term rentals increase housing prices nationally.⁴² This team studied 1,097,697 Airbnb listings and 68,803 Airbnb hosts across the U.S. from 2008 – 2016, and compared these data to Zillow's Home Value Index (ZHVI) and Zillow's Rent Index (ZRI). A 10% increase in Airbnb listings per zip code led to a 0.38% increase in rents, a 0.65% increase in home prices, and a 0.25% increase in the home-price-to-rent ratio (the for-sale price of a home compared to rent the home charges). The number of Airbnb listings also grew 6.5% in the average U.S. zip code starting in 2012. Researchers suggest this increase can explain up to 0.25% of annual rent growth, and 0.42% of annual home price growth nationally. A high owner-occupancy rate moderates these effects because there are fewer absentee landlords who convert to short-term rentals.

Another research team found evidence that Airbnb increases rents in Boston and removes long-term rentals from the market.⁴³ Researchers studied long-term rental listings, Airbnb listings, and other data from September 2015 – January 2016. One standard deviation increase in the density of Airbnb listings in a census tract correlated with a 0.4% increase in asking rents, while census tracts with the most listings had a 3.1% increase in asking rents (up to \$93 per month on average). One standard deviation increase in short-term rental listings per census tract also correlated with a 5.9% decrease in the number of long-term rental units, amounting to average losses of 4.5 long-term rental units per census tract.

⁴¹ Barron, K., Kung, E., & Proserpio, D. (2017). The sharing economy and housing affordability: evidence from Airbnb. *Social Science Research Network*. Accessed October 1, 2017 at SSRN: <https://ssrn.com/abstract=3006832>; Horn, K., & Merante, M. (2017). Is home sharing driving up rents? Evidence from Airbnb in Boston. *Journal of Housing Economics*, 38, 14-24; Lee, D. (2016). How Airbnb short-term rentals exacerbate Los Angeles' affordable housing crisis: Analysis and policy recommendations. *Harvard Law & Policy Review*, 10(1), 229-253.

⁴² Barron et al. (2017).

⁴³ Horn & Merante. (2017).

Researchers also suggest owner or renter-occupants that operate short-term rentals have a smaller impact on housing prices than commercial operators and absentee landlords do. Eighty-two percent of Boston hosts had only one listing, probably because they rented the home they lived in to earn extra income. Eighteen percent of hosts with more than one listing controlled 46% of all properties, however. These hosts were most likely commercial operators who rented homes that could be occupied by locals. These hosts probably had the biggest impact on housing affordability and availability because “it seems likely that a host with two homes for rent on Airbnb in the same city is listing at least some space which would otherwise be rented to residential tenants.”⁴⁴ The following section explores how some of these trends may apply to Ketchum.

Overview of Short-Term Rentals in Ketchum

Most short-term rentals in Ketchum on VRBO in fall 2016 were whole-home rentals of single-family homes, townhomes, and condos. There were a handful of guest homes and accessory dwelling units, and fewer than five private or shared rooms with the owner present. Short-term rentals were distributed throughout Ketchum’s residential neighborhoods and tourist districts, but were concentrated close to the ski lifts at Warm Springs and River Run, and in Ketchum’s community core. Owners managed 54% of the short-term rentals in Ketchum, and most had just one property. A property manager oversaw the remaining 46%. Among these properties, a handful of companies managed most Ketchum short-term rentals (Figure 20).

The short-term rental market in Ketchum is also always in flux. In February 2017 (peak ski season), there were 471 short-term rentals listed on national hosting sites⁴⁵ (Figure 21). At the time, these properties comprised about 12% of Ketchum’s 2015 estimated residential housing supply of 3,857 total units, according to American Community Survey data.⁴⁶ In August 2017, just before one of the biggest tourist events in Ketchum history—the Great American Eclipse—there were 585 short-term rental listings on national hosting sites⁴⁷ (15% of the estimated housing supply). A daily count of short-term rentals is a snapshot in time, and the best way to understand the short-term rental market in Ketchum is to track it daily.

⁴⁴ Horn & Merante. (2017).

⁴⁵ STR Helper. (2017, February 8). *Major Website Listings of Short-Term Rentals in Ketchum, ID*. Unpublished. The short-term rental total does not include properties that are not advertised on national hosting sites, but there are probably very few of these listings. Most local companies also advertise on national sites, so the number of short-term rentals that STR Helper found is probably very close to the total number of short-term rentals operating in Ketchum on that day.

⁴⁶ U.S. Census Bureau. (2011 – 2015). American Community Survey 5-Year Estimates.

⁴⁷ STR Helper. (2017, August 14). *Major Website Listings of Short-Term Rentals in Ketchum, ID*. Unpublished.

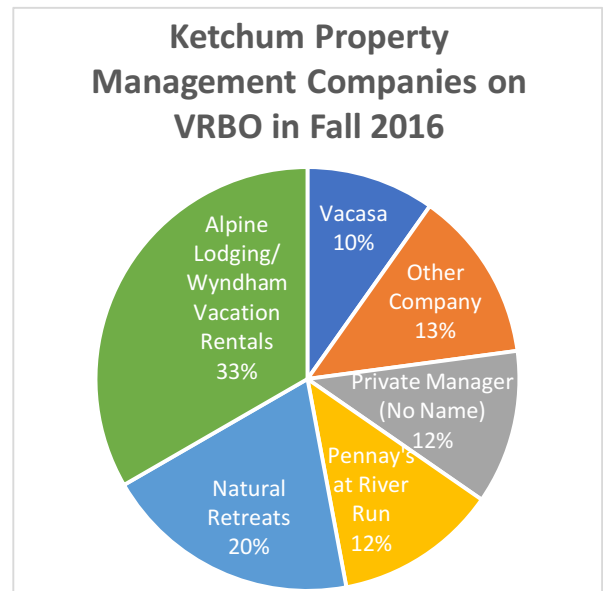


Figure 20: Property management companies with the most listings on VRBO.com in Ketchum from September – November 2016. Sample size = 153. Note that Pennay’s at River Run is technically a lodging establishment. Source: *Vacation Rental By Owner, 2016*.

Approximate Location of Short-Term Rentals in Ketchum, Idaho (February, 2017)

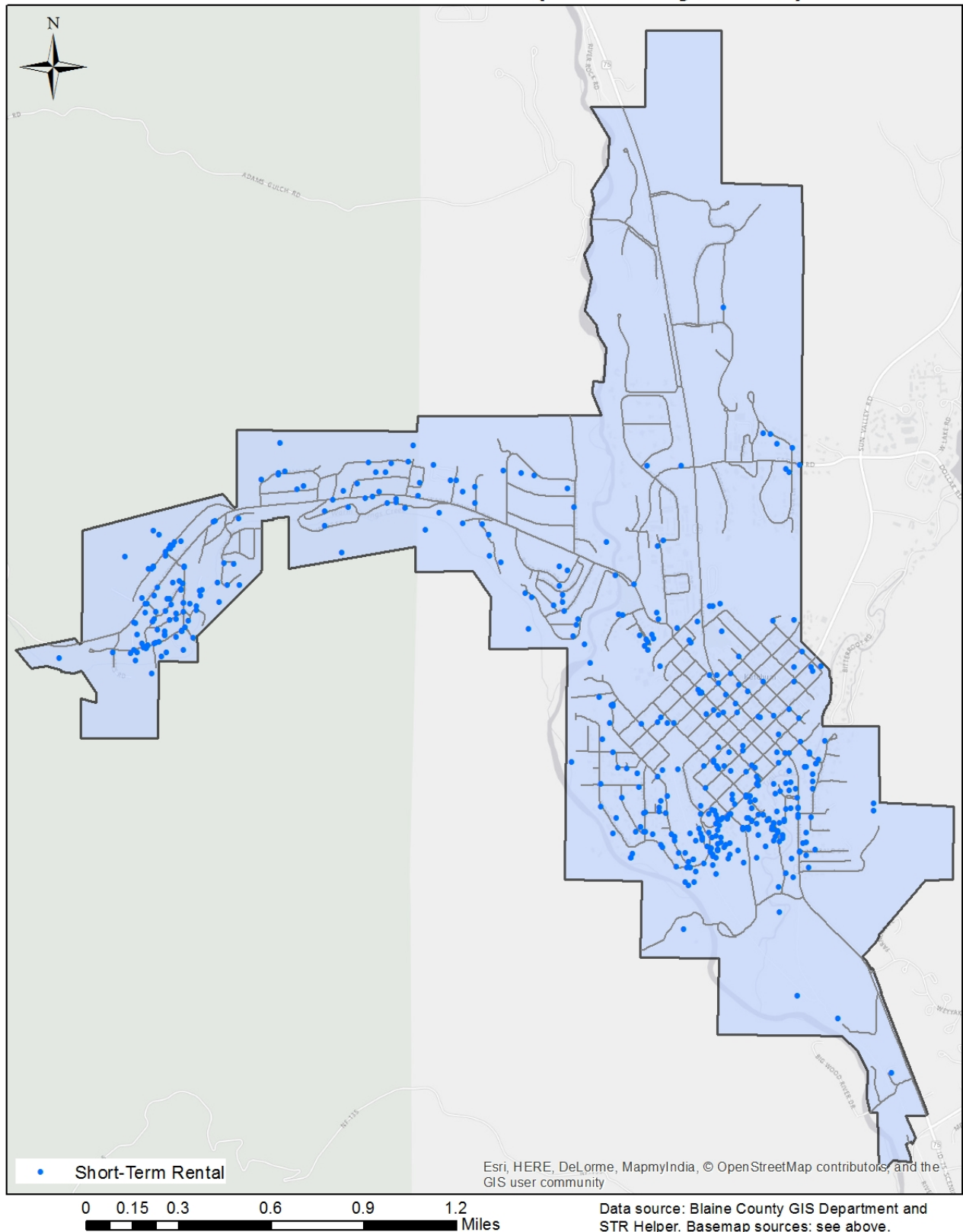


Figure 21: Approximate location (within ½ mile), of known short-term rentals in Ketchum on February 8, 2017. Source: Blaine County GIS Department, 2017; STR Helper, 2017.

There are several reasons behind the volatility of the short-term rental market. First, high tourist demand in peak summer and winter seasons is likely to induce some permanent resident homeowners and vacation homeowners to place their properties on the short-term rental market. Second, special events like the solar eclipse or the annual Nordic race may bring additional short-term rentals on the market. Third, a property may transition from a short-term rental to a seasonal rental and back throughout the year due to fluctuations in demand from tourists and seasonal workers. Fourth, a homeowners' use or vacation schedule could also dictate when that property is on the short-term rental market. For example, a permanent resident might put their home on the market over Christmas while they are away, or a vacation homeowner might rent their home short-term when they are at their permanent residence somewhere else. Unoccupied, commercially-owned and operated properties are likely to be on the short-term rental market most of the time because they do not have any use. While there are a variety of reasons why a property owner might put their home on the short-term rental market, the frequency and type of short-term rental are most likely to determine its impacts on housing affordability and availability.

Different Ways Short-Term Rentals Might Impact Housing Affordability in Ketchum

Permanent, unoccupied short-term rentals probably have the greatest impact housing affordability in Ketchum—especially those that are more affordable—because they could probably be inhabited by a permanent resident. Thus, every property used as a permanent short-term rental, and which could be a long-term rental or affordable ownership home, has the potential to impact housing affordability and availability. If owners convert long-term and affordable for-sale homes to short-term rentals faster than new housing construction can replace them, prospective renters and homeowners will compete for fewer properties and drive up housing prices. These properties are most likely operated by commercial lodging companies, investors, and Ketchum residents that manage one or more short-term rental properties on the side. Individual property owners have the right to use their property as they wish. However, the collective impacts of unoccupied short-term rentals very likely contribute to housing unaffordability and unavailability.

In contrast, permanent resident homeowners that use their primary residence occasionally as a short-term rental (either the whole home or a single room) probably have a smaller impact on housing affordability and availability. Renting the property short-term does not remove a home from the workforce housing pool because the owner lives there. These residents are also more likely to be part of Ketchum's workforce, and probably do not rent their homes as frequently because they have limited time and money to be on vacation. However, as discussed earlier in this section, research studies suggest short-term rentals increase the home-price-to-rent ratio because owners can earn extra income renting short-term. Therefore, it is possible that permanent resident homeowners who occasionally rent their homes short-term do have a small impact on overall housing prices, even though they benefit from short-term rental income to offset high housing costs.

The potential effects on housing affordability of short-term rentals that are also used as vacation homes are mixed. Vacation homes that were never long-term rentals or affordable ownership homes, but that are now also used as short-term rentals, probably have a smaller impact on the housing market than short-term rentals that were recently converted from long-term rentals or affordable for-sale homes. In Ketchum, these vacations homes are very expensive, or they are more affordable but have been out of the long-term rental and ownership markets for decades. Ketchum probably has many of these properties, given its luxury housing market and U.S. Census data that indicate a strong vacation home market in 1990. This trend likely started as early as 1970.

Recent vacation or investment home purchases enabled by the promise of short-term rental income may have a greater impact on housing affordability and availability. Short-term rental income can help offset mortgage,

maintenance, and other costs, and may incentivize the purchase of a vacation or investment home that could not be purchased otherwise. Owners of unoccupied, or infrequently occupied, vacation and investment homes have the highest potential for short-term rental profit because they could rent their properties for most of the year. These purchases likely raise the home-price-to-rent ratio and contribute more to growing housing prices. Owners that purchase properties previously in the long-term rental or affordable for-sale pool also reduce the overall workforce housing supply when they convert these properties to short-term rentals.

Evidence for Short-Term Rental Effects on Housing Affordability in Ketchum

Several of these short-term rental trends appear to occur in Ketchum. More than 80% of Ketchum hosts on VRBO in fall 2016 joined the hosting site in 2010 or later. New short-term rental hosts that joined VRBO since 2012 almost equaled losses in long-term rental newspaper listings during the same period. Two-hundred and nineteen short-term rental hosts joined the site since 2012 (Figure 22). In contrast, there were 212 fewer long-term rental newspaper advertisements in 2012 than in 2016.⁴⁸ Thus, some long-term rentals were probably converted to short-term rentals since 2012.

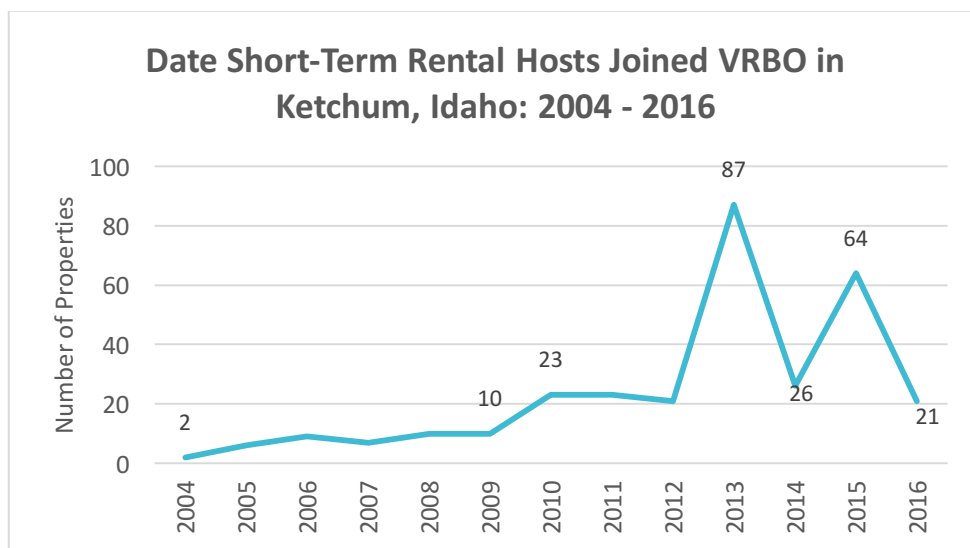


Figure 22: Date Ketchum short-term rental hosts joined VRBO.com from 2004 – 2016. Sample size = 332. Source: Vacation Rental By Owner, 2016.

Ketchum short-term rental hosts who bought their properties after 2010 also appear to have done so with the intent to rent short-term. The difference between the short-term rental purchase date and the VRBO join date shrank dramatically since VRBO was founded in 2004. Owners who purchased their properties from 2010-2014 did so an average of 0.1 years *after* they joined VRBO, meaning they were VRBO members prior to purchasing their property in Ketchum (Figure 23). These data suggest intent to purchase a home for use as a short-term rental. They also suggest properties purchased prior to 2010 were bought initially for other uses, such as a vacation home or permanent residence. Owners who bought before 1989 waited an average of 30.6 years before joining VRBO, compared to an average of 17.2 years for purchases made between 1990 – 1999, 8.7 years for purchases from 2000 – 2004, and 4.3 years for purchases made from 2005 – 2009.

⁴⁸ Blaine County Housing Authority. (2017). Long-Term Rental Statistics from November 23, 2011 - February 24, 2017. Unpublished.

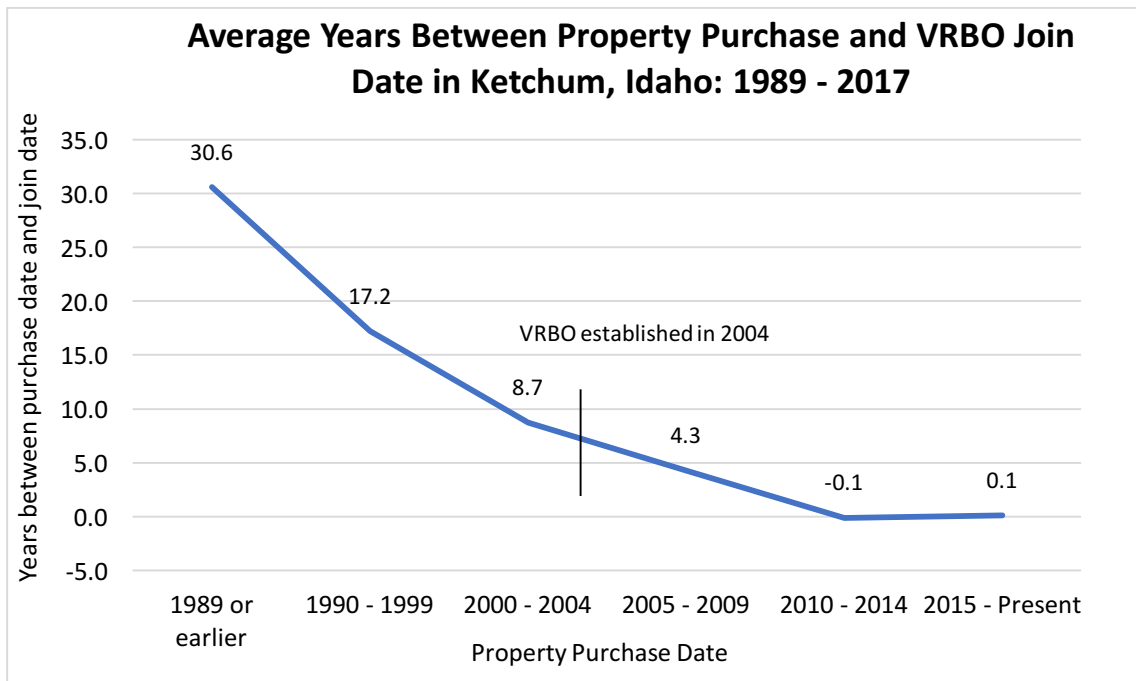


Figure 23: VRBO join date compared property purchase date. Sample size = 144. Source: Vacation Rental By Owner.com, 2016.

Short-term rental listings also vastly outnumbered long-term rental listings in 2016 and 2017. The 585 short-term rentals on national hosting sites on August 14, 2017 represented approximately 15% of Ketchum’s estimated housing supply.⁴⁹ On that day, there were 7.4 times more short-term rental listings than long-term rental newspaper advertisements in all of 2016 (79 long-term rental listings, representing only 2% of Ketchum’s estimated housing supply).

There were also more short-term rentals on VRBO in fall 2016 advertising monthly rent (in addition to nightly short-term rental prices) than long-term rental advertisements in the newspaper during approximately the same period. From mid-September – early November, there were 73 short-term rentals in Ketchum advertising monthly rent, but only 34 long-term rentals in the local newspapers.

The median short-term rental monthly rate was also significantly higher than the median long-term rental rate (Figure 24). Median monthly rent for a one-bedroom short-term rental was 4.7 times the median monthly rent for a one-bedroom long-term rental.⁵⁰ Two-bedroom short-term rentals were 2.6 times higher, and three+ bedroom homes were 3.0 times higher. The high prices that short-term rentals can command are certainly an economic incentive for short-term renting.

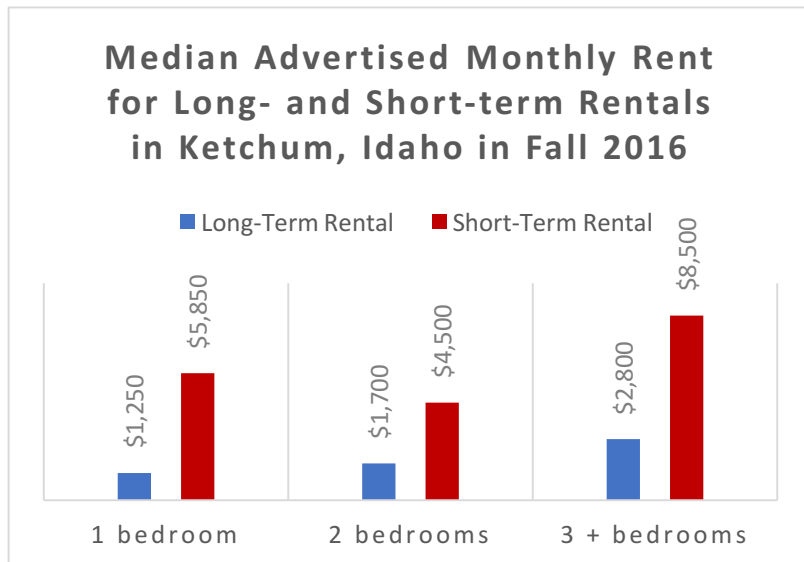


Figure 24: Median rent for long-term rentals advertised in local newspapers (September 28 – November 30, 2016) and short-term rentals advertised on VRBO.com (September 21 – November 7, 2016). Source: Blaine County Housing Authority, 2016; Vacation Rental By Owner, 2016.

⁴⁹ U.S. Census Bureau. (2011 – 2015). American Community Survey 5-Year Estimates.

⁵⁰ Blaine County Housing Authority. (2017).

Many Ketchum short-term rentals are also smaller and older condos and townhomes that could be occupied by permanent resident renters or homeowners. Some of these properties are probably also used as vacation homes, but some are investment properties that operate as full-time short-term rentals. These properties are most likely be affordable to permanent resident owners and renters if they were available. Removing these properties from the long-term rental and homeownership markets, regardless of whether they are used as a short-term rental, vacation home, investment property, or some combination of the three, means permanent residents have fewer affordable housing options to choose from.

There are many reasons why property owners convert to short-term rentals. The next section explores how money, time, effort, and logistics are a few of the issues that prospective hosts must weigh.

Breaking Even: Determining Whether to Rent Long- Or Short-Term

The financial break-even point between renting short- and long-term is an important consideration for landlords to determine what type of rental to offer. This point is unique to each property. Landlords must consider at what nightly price and occupancy rate they would earn more money renting short-term, compared to the lower but more stable income they would earn with long-term tenants. Short-term rentals also have the potential to generate more income, but just how much depends on how often the property is rented.

Other financial issues include costs to furnish a short-term rental vs. a long-term rental (and whether the long-term rental is furnished at all), the number of bedrooms, and the nightly and monthly prices the markets will bear. Guest expectations also influence these costs. The quality of the property and furnishings impact what guests are willing to pay. Will guests expect a luxury experience with matching, expensive furnishings? Or, do they know they are staying in someone's house, and do not expect all the furnishings to match? These questions can help hosts decide whether to rent short- or long-term, which determine what to spend on furnishings, property remodels, and other factors that impact guest expectations and prices.

The potential to earn a higher nightly rate very likely draws some landlords to the short-term rental market. However, short-term rentals are not necessarily as lucrative as their owners would like because they are often not rented frequently. A report on short-term rentals in Los Angeles⁵¹ found 38% of hosts with just one listing did not generate any revenue. Hosts with multiple listings were much more likely to earn money, and that chance increased as the number of listings grew. The 10-most reviewed properties in Los Angeles had a 66% average occupancy rate, which is approximately comparable to average hotel occupancy rates in that City. Less popular listings have a much lower occupancy rate. Ketchum likely has properties that are rented frequently and infrequently just like in Los Angeles, although these rates fluctuate seasonally.

In Ketchum, demand ebbs and flows seasonally, and short-term rentals compete for guests with hundreds of other properties. As a result, some are probably not rented very frequently. The average hotel occupancy rate in Ketchum in the last three years was 47%. Demand spiked to 75% in July 2017, and sunk to 35% in April 2017.⁵² If short-term rentals follow hotel occupancy patterns, they have a greater chance to be occupied in peak summer and winter seasons. Short-term rental availability calendars do not indicate if a property is unavailable because it is rented, undergoing maintenance, or in use by the owner. Tracking and monitoring of Ketchum's short-term rental market is needed to better understand short-term rental occupancy rates.

The 73 Ketchum short-term rentals that also advertised monthly rent on VRBO in fall 2016 probably did so because of a low or unreliable short-term rental occupancy rate. Whether they are willing to accept renters

⁵¹ Laane. (2015). *Airbnb, Rising Rent, and the Housing Crisis in Los Angeles*.

⁵² Visit Sun Valley. (2017). 2017 average and seasonal occupancy data. Personal communication. Unpublished.

for more than one month is another question. However, 33% of the short-term rentals on VRBO (110 properties) seemed amenable to month-long leases: 18 advertised monthly rent *and* stated, ‘long-term renters welcome;’ 36 advertised, ‘long-term renters welcome’ only; and 56 advertised monthly rent but did not state, ‘long-term renters welcome.’ Seventy-five of these properties were condos or townhomes, and 35 were single-family homes. Two- and three-bedroom homes were most likely to either advertise ‘long-term renters welcome’ or monthly rent.

Time and logistics are other issues for landlords to consider when deciding whether to rent long- or short-term. Owners that manage the property themselves must consider what they are willing to do to run their business. Are they willing to advertise it, set the price, take care of guests, do the cleaning and maintenance, and act as a primary contact? These tasks might deter some potential short-term rental hosts. Others might have ample property management experience and enjoy these tasks. Some advertise short-term rentals as bed and breakfast establishments, and offer a unique hospitality experience. Others take a hands-off approach, assisting guests only if needed. Owners that hire a property management company are insulated from the time-consuming and logistical aspects of managing a short-term rental, but must pay part of their profits to these companies.

Owner use patterns also influence decisions to rent short- vs. long-term. Short-term rental hosts can block off their property calendar whenever they plan to visit. This feature is most important to owners who intend to use their property regularly, and those that want frequent access for cleaning and maintenance.

Low Workforce Housing Build Rate

The low build-rate of new workforce housing is another probable cause of housing unaffordability in Ketchum. Even though Ketchum is the economic hub of the Wood River Valley, the build-rate is not high enough to meet the needs of Ketchum’s low-to-moderate-income workers, given losses in the share of renter- and owner-occupied homes since 1970. Interview data suggests high land and construction costs, zoning restrictions in floodplains, conservation areas, and on steep slopes, high wildfire potential in outlying areas, and limited water and sewer connections outside established cities all contribute to the low build-rate. Anecdotal evidence also suggests there is more legal resistance among Ketchum property owners to workforce housing than in other parts of Blaine County. Potential reasons include resistance to development in general, and fears that proximity to workforce housing will lower property values. These fears are unsubstantiated, but they appear to be a significant barrier to the development of workforce housing in Ketchum.

Zoning regulations within City limits may also inadvertently limit the build-rate of workforce housing. Higher-density housing must go through a planned-unit development (PUD) or conditional use permit (CUP) process, which places additional time and money burdens on developers who want to build smaller, more affordable homes. Because of this, the Blaine County build-rate for moderate-income housing priced between \$250,000 - \$500,000 is only about 30 homes per year.⁵³ Demand is expected to grow by 80 homes per year by 2018, and may exceed 100 homes per year by 2027.

Shifting Regional Demand for Ownership Housing

Demand for reasonably-priced for-sale housing in Hailey, Bellevue, and Blaine County appears to contribute to a growing scarcity of residential real estate and higher for-sale prices region-wide. Hailey, Bellevue, and Blaine County had only 2.8, 1.8, and 4.5 months’ supply of for-sale residential property in early 2017.⁵⁴ Ketchum had

⁵³ Sun Valley Economic Development (2017). Middle-Income Housing Summit (February 4). Ketchum, ID.

⁵⁴ Anecdotal evidence suggests a healthy real estate market should have at least 6 months of supply.

6.8 months of supply and Sun Valley had 8.5, but these areas are much more expensive and are less likely to have affordable homes.⁵⁵ A shrinking supply and rising prices make finding an affordable home more difficult.

Fluctuations in the National Economy and Housing Market

The broader economy and housing market also impact the for-sale and rental housing markets in Ketchum. Ketchum and Blaine County's median home prices dropped dramatically in 2011-2012 from their peak in 2007-2008. Many owners became long-term rental landlords during the Great Recession—thereby growing the long-term rental supply—while they waited for property values to increase. Prices have increased in the past five years, and are now at the highest since their peak in 2007-2008. High prices may induce households to view real estate as a lucrative investment again, particularly if their incomes have grown since the Great Recession. High housing prices and a healthier overall economy are also likely to grow demand for vacation homes and investment properties.

The sale of long-term rental properties most is probably one factor in the decline of vacant for-rent homes and long-term rental newspaper listings since the early 2010s. Some new property owners may still rent their properties to long-term tenants, and other new owners are probably permanent resident homeowners. However, some new owners likely use their properties as a vacation home, short-term rental, investment property, or a combination of the three, given the strong financial pull of the short-term rental market and the flexibility to use the property frequently. The supply of for-sale and long-term rental homes is fixed in the near-term, so competition for fewer properties may drive up prices.

Summary of Probable Housing Unaffordability Causes

Several factors appear to contribute to housing unaffordability and unavailability in Ketchum. Vacation homes, short-term rentals, and a healthy national economy and housing market appear to generate demand—particularly non-local demand—for residential real estate in Ketchum. Increased competition for homes drives up prices, especially since residents from wealthier metropolitan areas may be able to out-bid Ketchum residents. They also appear to take affordable rental and ownership homes off the market. This process may force Ketchum residents to compete for fewer affordable for-sale and rental homes. A low workforce housing build-rate exacerbates these trends because new housing has not kept pace with demand. Causes include high land and construction prices, and zoning, regulatory, and other mechanisms that fail to incentivize the production of sufficient workforce housing. Lastly, a stronger housing market may encourage homeowners—who had become long-term rental landlords during the Great Recession—to sell their properties to recoup an investment now that housing prices are higher.

High housing costs affect all Ketchum residents, but some groups are particularly affected. The next section explores the population segments most affected by housing unaffordability.

⁵⁵ Sun Valley Board of Realtors. (2017). Presented at the Sun Valley Economic Development Middle-Income Housing Summit. (February 4). Ketchum, ID.

Populations Most Affected by Housing Unaffordability

Seasonal workers in service jobs, low-income households, moderate-income households, and commuters face greater housing affordability challenges than others. Efforts to grow the workforce housing supply could go a long way to alleviate housing unaffordability for current residents across the income scale, as well as create affordable housing options to attract families and other groups that the City wants to live and work in Ketchum.

Non-Family Households

Most affordability calculations in this report are based on Blaine County's 2016 median income of \$78,600 for a family of four. This is the standard affordability calculation used by the U.S.

Department of Housing and Urban Development, Blaine County Housing Authority, and others. However, Ketchum is made up of households of all different sizes. It is important to consider their housing needs, and whether available housing is both affordable and appropriate for them. The median household income, which was \$50,319 in 2015 according to the American Community Survey, is another useful tool to measure affordability. The median household income encompasses all of Ketchum's households, not just families of four.

Income is not distributed evenly across household types in Ketchum, however. Moderate-income households are primarily families,⁵⁶ while low-income households are primarily non-families.⁵⁷ Ketchum's median family income in 2015 was \$75,068 (150% of the median household income) while the median non-family household income was only \$35,732 (71% of the median household income) (Figure 25). There were almost twice as many non-family households as family households in 2015 (543 compared to 972). By extension, the total number of non-family households earning less than the median income is much greater (610 households) than the family households (161 households). Homeownership is out of reach for most non-family households: rentals costs that exceed 30% of their income limit their ability to save for a down payment and qualify for a mortgage.

Quick Facts: Populations Affected by Unaffordability

- Housing unaffordability affects some population segments more than others.
- The most sensitive groups are: non-family households, low- and moderate-income residents, service workers, and commuters.
- Non-family households tend to earn less than families.
- Blaine County has an overabundance of leisure/hospitality, and construction jobs, compared to the U.S. average. These jobs are seasonal, and wages are often low.
- These households usually earn less than the median income, making it even more difficult to find an affordable home.

⁵⁶ The U.S. Census Bureau defines families as "a group of two people or more (one of whom is the householder) related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family." See <https://www.census.gov/programs-surveys/cps/technical-documentation/subject-definitions.html#family>, last updated on August 25, 2015. Accessed August 2, 2017.

⁵⁷ The U.S. Census defines a nonfamily household as consisting of a "householder living alone (a one-person household) or where the householder shares the home exclusively with people to whom he/she is not related." See <https://www.census.gov/programs-surveys/cps/technical-documentation/subject-definitions.html#householdnonfamily>, last updated on August 25, 2015. Accessed October 18, 2017.

Income Distribution By Household Type in Ketchum, Idaho in 2015

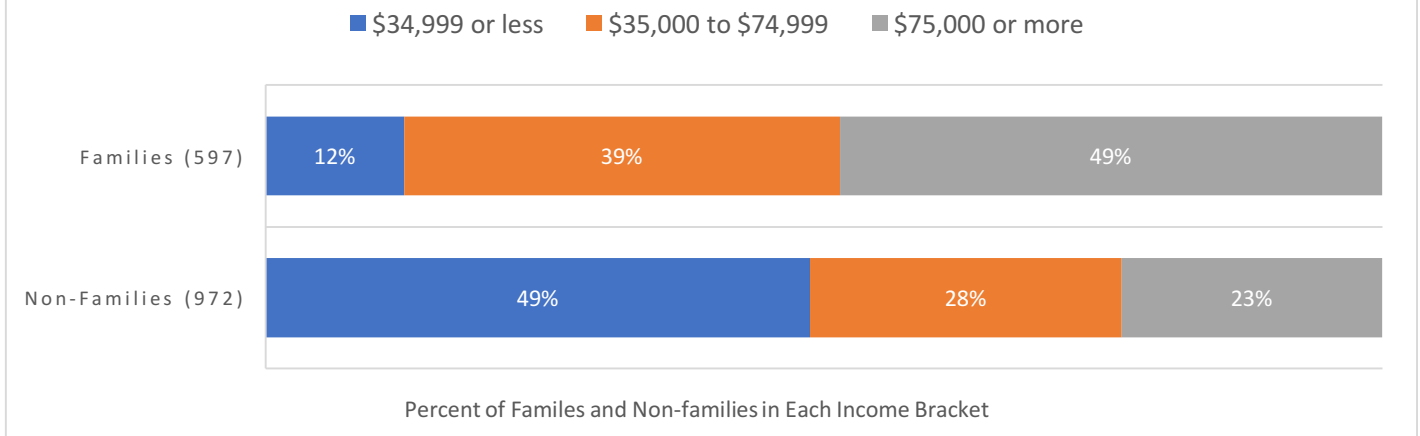


Figure 25: Distribution of annual income among Ketchum’s 1,569 estimated households in 2015. Low-income households earned \$34,999 or less; middle-income households earned \$35,000 - \$74,999; and high-income households earned \$75,000 or more. Income below \$14,999 per year was excluded from this graph because it was not reported. Source: American Community Survey 5-Year Estimates, 2011 – 2015.

Seasonal Workers in Service Jobs

Seasonal workers in leisure/hospitality and service jobs in Ketchum are most affected by high housing costs. Bureau of Labor Statistics data indicates workers in the leisure and hospitality sector earned an average of only \$22,976 per year in 2016 (Table 8), while other service-providing workers earned a slightly higher average income of \$38,276.⁵⁸ Workers in these categories are in Ketchum’s tourist-serving businesses, including restaurants, hotels, transportation, outdoor activity outfitters, and other service providers. They cannot rely on steady wages because these jobs ebb and flow with tourism. Jobs are plenty in the peak summer and winter tourist seasons, but scarce in the low seasons.

There are a lot of leisure, hospitality, and service-providing jobs in Blaine County, but the number of people employed in these sectors fluctuates greatly. Service-providing jobs oscillated between 8,000 and 10,000, depending on the season, while hospitality/leisure jobs ranged from 2,500 to almost 4,000 (Figure 26).

Table 8: Annual Wages Per Employee for High-Level Industries in Blaine County, Idaho: 2016

High-Level Industry	Annual Wages per Employee
Leisure and hospitality	\$22,976
Trade, transportation, and utilities	\$35,792
Natural resources and mining	\$36,218
Other services	\$37,706
Service providing	\$38,276
Construction	\$42,749
Goods producing	\$44,148
Education and health services	\$49,864
Manufacturing	\$51,851
Financial activities	\$53,654
Professional and business services	\$58,473
Average, all industries	\$39,372

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages for Blaine County, 2016.

⁵⁸ Bureau of Labor Statistics. (2016). Quarterly Census of Employment and Wages for Blaine County.

Employment by Private, High-Level Industries in Blaine County, Idaho in 2016

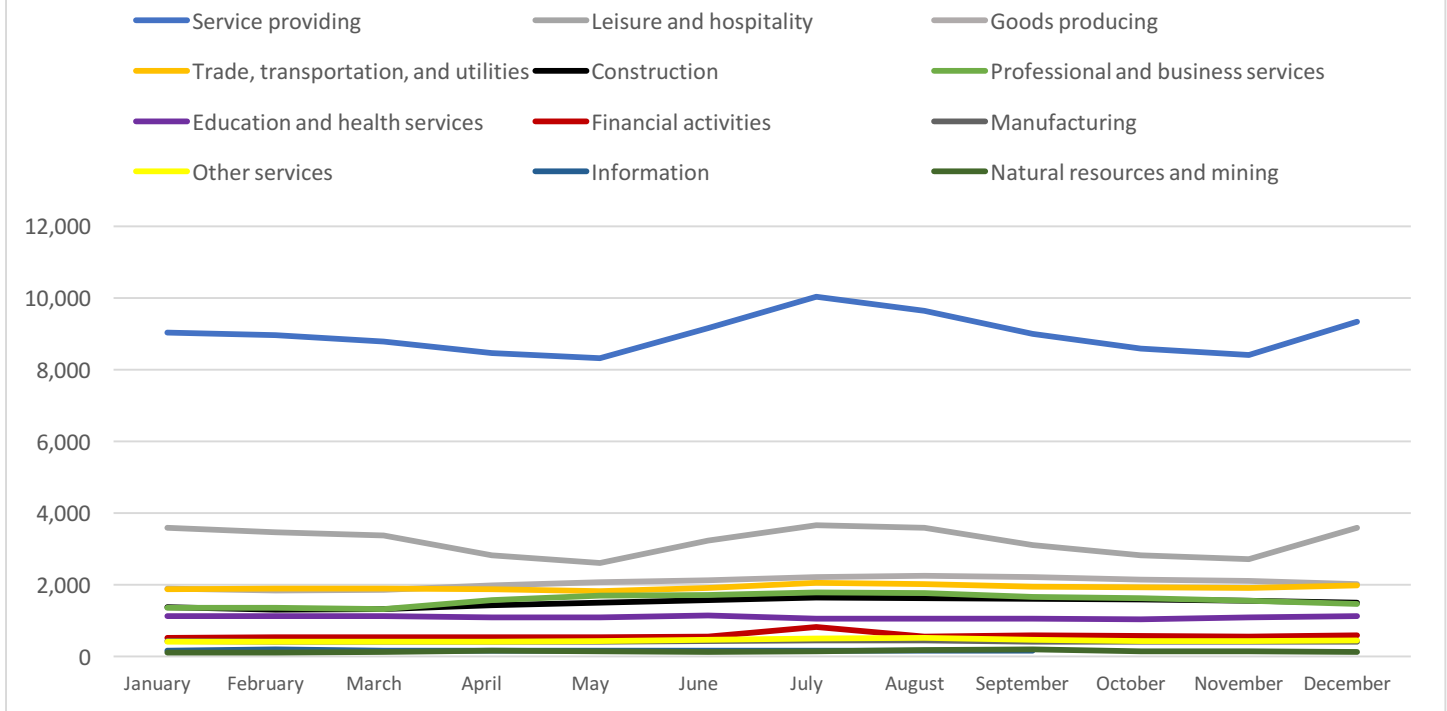


Figure 26: Number of workers in each private high-level industry in Blaine County in 2016. Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages for Blaine County, 2016.

There are also more leisure/hospitality jobs on average in Blaine County than in the rest of the United States. The location quotient, which indicates whether jobs in Blaine County are over- or under-represented, shows that leisure/hospitality and construction jobs are over-represented (Figure 27). Construction jobs in Blaine County have a location quotient of more than 2.5, while leisure/hospitality jobs have a location quotient of 2.4. Service providing jobs have a location quotient of one, which means there are approximately the same proportion of these jobs in Blaine County as in the rest of the country.

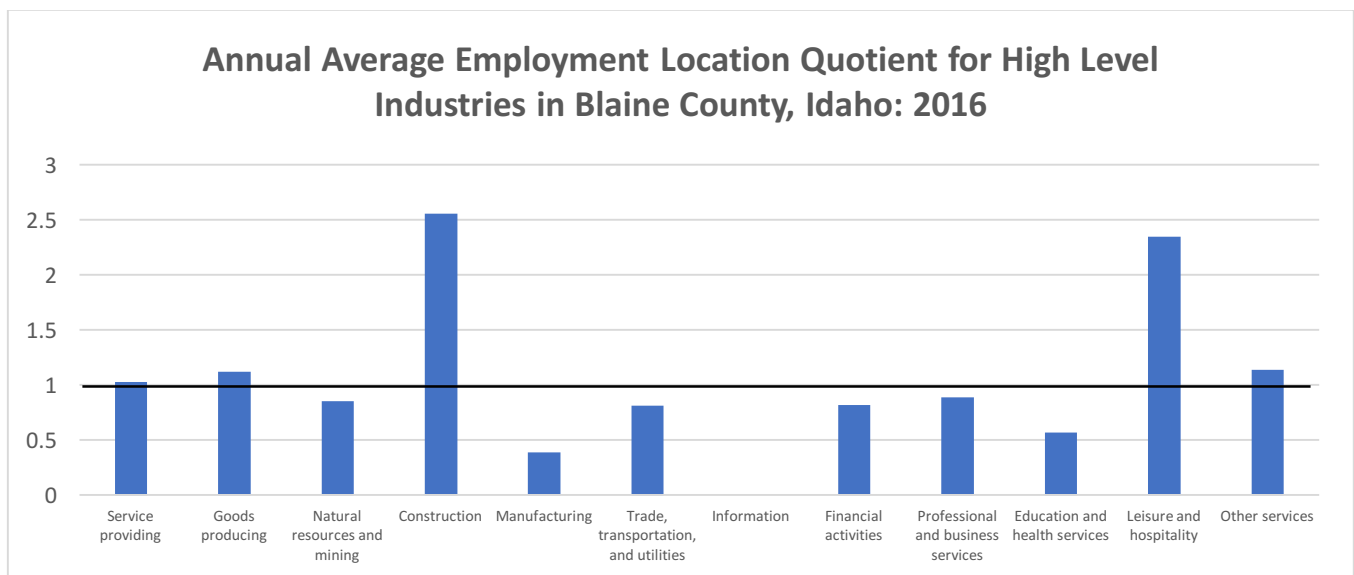


Figure 27: Location quotient for the number of jobs in each high-level industry sector in Blaine County in 2016. Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages for Blaine County, 2016.

Seasonally-dependent, service-oriented and leisure/hospitality jobs constitute one of the most common jobs in a tourist-oriented economy like Ketchum's. They are also low-paying and cannot be relied upon for steady wages throughout the year. Workers in these sectors are most likely to earn less than the median income, struggle to pay for housing when times are lean, and fall in the low-income category.

Low-Income Households

Low-income households in Ketchum are most affected by high rents. They are most likely to be renters because they do not earn enough to save for a down payment or qualify for a mortgage. These households earn no more than 80% of Ketchum's median income. Blaine County Housing Authority income limits in October 2017 indicate this amount was \$43,600 for a one-person household, and \$62,250 for a four-person household.⁵⁹ Very low-income households earn 50% of Ketchum's median household income (\$27,250 for a one-person household, \$38,900 for a four-person household), and extremely low-income households earn 30% (\$16,350 for a one-person household, \$24,600 for a four-person household).

These households can qualify for rental assistance from the U.S. Department of Housing and Urban Development, but Federal funding does not adequately address unaffordability in Ketchum. Federal assistance is not widely available because Ketchum's median household income is artificially high: affluent residents that receive additional income from investments inflate this benchmark, which is problematic for the many Ketchum residents that rely on wage income alone. Growing rental prices and long-term rental scarcity means that low-income Ketchum renters are unlikely to find an affordable rental property outside of low-income, deed-restricted Federal and locally-funded housing developments.

There are two organizations in Blaine County that manage or build housing for low-income residents: Blaine County Housing Authority (BCHA), and the non-profit ARCH Community Trust. In October 2017, there were 104 households on the BCHA waiting list for affordable workforce rental and ownership homes. Fifty-four of these households identified Ketchum as their preferred location; 43 earn less than 80% of the area median income.⁶⁰ Among all households on the BCHA waiting list (all but one earned no more than 120% of the area median income), 30 preferred to rent, four preferred to buy, and 20 would either buy or rent. Households that do not qualify for these programs, or who qualify but cannot find an available home that meets their needs, are forced to seek affordable housing outside of Ketchum.

There is more Federal- and State-subsidized housing for low-income residents in Hailey than in Ketchum, but there is much more of this type of housing for residents willing to travel to Jerome (72 miles from Ketchum) or Twin Falls (81 miles from Ketchum). In Hailey, there are six properties built under the Low-Income Housing Tax Credit program,⁶¹ which offer low-income residents a total of 385 homes. The closest apartments that accept Section 8 Federal vouchers⁶² for low-income renters are in Twin Falls, Idaho. Federal HOME funding⁶³ is also concentrated in Twin Falls.

⁵⁹ Blaine County Housing Authority. (2017). Personal communication.

⁶⁰ Blaine County Housing Authority. (2017).

⁶¹ The U.S. Department of Housing and Urban Development identifies the Low-Income Housing Tax Credit (LIHTC) as "the most important resource for creating affordable housing in the United States today." It was created in 1986 and has generated an estimated 2.97 million new affordable housing units between 1987 and 2015. For more information, see <https://www.huduser.gov/portal/datasets/lihtc.html>.

⁶² The U.S. Department of Housing and Urban Development's Section 8 Housing Choice Vouchers assist low-income families, the elderly, and the disabled to afford rental properties on the private market. These vouchers subsidize households' housing costs, and can be used at apartments, townhomes, and single-family homes—any private property that accepts them and meets Federal requirements. For more information, see: https://www.hud.gov/topics/housing_choice_voucher_program_section_8.home.

⁶³ The U.S. Department of Housing and Urban Development's HOME Investment Partnership Program (HOME) funds serve low- and very low-income households. They can be used for rental assistance, housing relocation, homebuyer assistance, and new housing construction. For more information, see: <https://www.hud.gov/hudprograms/home-program>.

Moderate-Income Households

Moderate-income households are both owners and renters, and are affected by the lack of affordable rental and ownership housing. These residents earn 80% to 120% of the median household income (\$40,256 - \$60,383) in 2015. Households on the lower-end struggle to find an affordable rental just like low-income residents do. Moderate-income households that do qualify for homeownership are likely among the 80% of homeowners that were housing-burdened in 2015, according to American Community Survey data.

There are several barriers to homeownership in Ketchum for moderate-income residents. The highest barriers are household debts and the lack of high-paying jobs in Ketchum, as well as few affordable single-family homes. While there are preliminary efforts underway to boost moderate-income housing, it will be years before these projects come to fruition. One last barrier is the seasonal nature of Ketchum's economy. Households may have a member with steady employment as a ski instructor at different resorts, for example, but the lack of a steady job at one location limits these households' ability to qualify for a mortgage after moving to Ketchum.

Commuters

The lack of affordable single-family homes in Ketchum and the subsequent exodus of many Ketchum households to areas outside of the Ketchum City limits have led to the rise of a 'commuting class' in the Wood River Valley. These individuals live outside the City limits, but commute to Ketchum for work. Commutes vary from a few miles to 54 or 80 miles (for those commuting in from Shoshone, ID and Twin Falls, ID respectively). Commuters pay lower housing costs, but incur higher transportation costs in the form of fuel, insurance, automobile maintenance and time spent waiting in traffic. Furthermore, all Wood River Valley residents suffer from increased air pollution from more cars on the road.

Summary of Households Most Affected by Housing Unaffordability

High housing prices affect current and prospective Ketchum residents because they act as a barrier for people who want to live and work in Ketchum. All Ketchum residents benefit from having a workforce that lives close by, regardless of their status as a long-term renter or homeowner, or new resident. Residents and tourists rely on workers to provide necessary services, in turn making Ketchum a thriving, livable community. These workers (which include non-family households, low and moderate-income residents, and seasonal workers), are most likely to be affected by high housing costs. Housing unaffordability forces them to choose between spending much of their wages on housing in Ketchum, or moving elsewhere and paying higher transportation costs. High housing costs threaten the fabric of Ketchum's community. Addressing these costs should be a high priority moving forward.

The City of Ketchum has policies to address these issues, but they are falling short. The following section describes Ketchum's policies to promote workforce housing and manage short-term rentals, and presents other mountain resort communities as potential models for Ketchum moving forward.

Current Policy Approaches and Effects

Ketchum has taken a relatively passive approach to incentivize workforce housing and regulate short-term rentals, especially when compared to other western mountain resort communities. Ketchum’s policies are not sufficient to grow workforce housing to meeting community needs, however, nor do they do enough to capture economic value from short-term rentals while minimizing potential negative impacts. This section describes Ketchum’s policies, provides an overview of other communities’ policies, and highlights examples of policies and programs from other cities.

Ketchum Policy Approaches and Effects

Ketchum’s workforce housing and short-term rental policies fall short. They are 1) not enforced; 2) unenforceable; or 3) do not achieve intend outcomes. These policies are summarized below (Table 9).

Table 9: Current Ketchum Policies to Manage Short-Term Rentals and Grow Workforce Housing

Policy	Effective Date	Incentives and Regulations	Desired Outcome	Actual Outcome
Legal and Illegal Short-Term Rental Zones	February 25, 1982	<ul style="list-style-type: none"> • Ketchum is divided into legal short-term rental zones (tourist areas close to the ski lifts and Bigwood golf course), and illegal zones where short-term rentals are prohibited (all other zones, including residential, light industrial, community core, open space, etc.). • Penalties for short-term rentals in illegal zones include a \$100-per-day fine for the first 30 days. 	Concentrate short-term rentals in tourist districts (close to ski lifts), and keep them out of residential districts.	<ul style="list-style-type: none"> • Minimal. This policy is rarely, if ever enforced, and it does little to deter short-term rentals in illegal zones. Even if enforcement were a goal, it is almost impossible to enforce a short-term rental ban. City staff would have to physically visit properties to enforce this ban. • This ban will no longer be relevant when Idaho State Statute 67-6539 “Limitations On Regulation Of Short-Term Rentals And Vacation Rentals” goes into effect on January 1, 2018. It prevents municipalities from using land-use mechanisms to regulate short-term rentals.
Sales Tax Permit for Short-Term Rentals (Local Option Tax Remission Permit)	1978 – present	<ul style="list-style-type: none"> • Short-term rentals are required have a sales tax permit and remit local and state sales taxes. • Application fee is \$0. • Applicants are required to submit an emergency contact form. 	Make sure all short-term rentals pay appropriate state and local sales tax.	Unclear if penalties exist to punish properties that do not pay proper sales tax. Also, low barriers to entry (sales tax permits have no fee and do not have health and safety requirements), allow the short-term rental market to grow with few controls.
Local Option Tax (LOT)	1997 – present; effective through 2027	<ul style="list-style-type: none"> • The LOT was passed by a majority of Ketchum voters and is a sales tax that applies to all retail sales within the City, and all sales where delivery occurs within the City. • The City would need to investigate whether the LOT could fund workforce housing if approved by voters. 	Generate revenue from tourism and sales to fund important community needs.	The LOT is an important source of local sales tax revenue that funds transportation, open space acquisition, capital improvements, emergency services, city promotion, special events, property tax relief, and air service. ⁶⁴

⁶⁴ City of Ketchum. (2011). *Local Option Tax (LOT)*. Accessed September 5, 2016 at <http://ketchumidaho.org/index.aspx?nid=440>.

Affordable Housing Density Bonus	1994 – Present	Developers can build structures with a floor-area-ratio (FAR) ⁶⁵ up to 2.25 if they pay an impact fee to fund workforce housing elsewhere. Otherwise, the maximum allowable FAR is 1.0.	Grow the supply of workforce housing.	Analyzed in a separate study that is currently underway. Results are to be determined, but clearly the density bonus has not spurred sufficient workforce housing, given housing unaffordability and supply concerns.
Homeowner Exemption Tax Relief	1980 – Present	<ul style="list-style-type: none"> • The State of Idaho offers a property tax break for owners living in their primary residence. The tax break is up to 50% of the assessed value of the property, or up to \$100,000 in 2017. • The Homeowner Exemption identifies which properties are a primary residence (and which are not), making it a useful proxy for primary vs. secondary (vacation) homeownership (non-homeowner exemption properties are likely vacation or investment homes). 	Provide a tax break for owners living in their primary residence.	In February 2017, there were 772 Homeowner Exemption properties within the City limits.

Policy: Regulate Short-Term Rentals Through Legal vs. Illegal Zones

Ketchum’s short-term rental policies are a long-standing approach to tourist housing crafted in another era, and these policies were not a priority to modernize until recently. Given the risk of negative community impacts while recognizing the need for a wider variety of accommodations for tourists, in 1982 the City of Ketchum adopted definitions for “tourist housing accommodations”, defined as “the lease, rental or use of a dwelling unit for short term or timeshare occupancy,”⁶⁶ and began permitting this type of short-term rental in specific zoning districts.

There are 11 types of illegal zones, and six types of legal zones. Legal zones aim to “identify and preserve recreation oriented neighborhoods,” “to prevent overcrowding of land,” “to encourage the development of [moderate to high-density single-family or multi-family structures, depending on the zone],” and “provide the opportunity for short-term tourist accommodations,” in specified areas.⁶⁷

Short-term rentals are dispersed throughout legal and illegal zones. Legal zones (in blue; see Figure 28 on the next page) are concentrated close to the Warm Springs and River Run areas, and around the Bigwood Golf Course. These areas were all developed expressly for tourism purposes. Illegal zones (in red) are more common than legal zones, and they prohibit short-term rentals to “identify and preserve residential properties, to prevent overcrowding of land to preserve natural features and openness and to encourage the development of low density areas suited for single-family residential purposes.”⁶⁸ They include residential areas distributed throughout Ketchum, in addition to Ketchum’s Community Core.

Violations of the short-term rental ordinance are punishable by a \$100-per-day fine for the first 30 days. Each subsequent day “shall constitute a separate offense for the purpose of calculating the civil penalty.”⁶⁹ Historically, short-term rental zoning has rarely been enforced due to few nuisance complaints. Enforcement is also logistically difficult and requires much City staff time and resources.

⁶⁵ The Floor-to-area ratio (FAR) is the ratio of a building’s total floor area to the piece of land that the building is built upon.

⁶⁶ City of Ketchum. (2015). Title 17: Zoning Regulations, Chapter 17.08.020: Terms Defined. Accessed September 6, 2016.

⁶⁷ City of Ketchum. (2015). Title 17: Zoning Regulations, Chapter 17.18.120: Tourist – 4000 District (T-4000). Accessed September 6, 2016.

⁶⁸ City of Ketchum. (2015). Title 17: Zoning Regulations, Chapter 17.18.120: Limited Residential District (LR). Accessed September 6, 2016.

⁶⁹ City of Ketchum. (2015). Title 17: Zoning Regulations, Chapter 17.132.050: Violations, Legal Actions and Penalties. Accessed September 6, 2016.

Short-Term Rentals and Illegal and Legal Zones in Ketchum, Idaho (February, 2017)

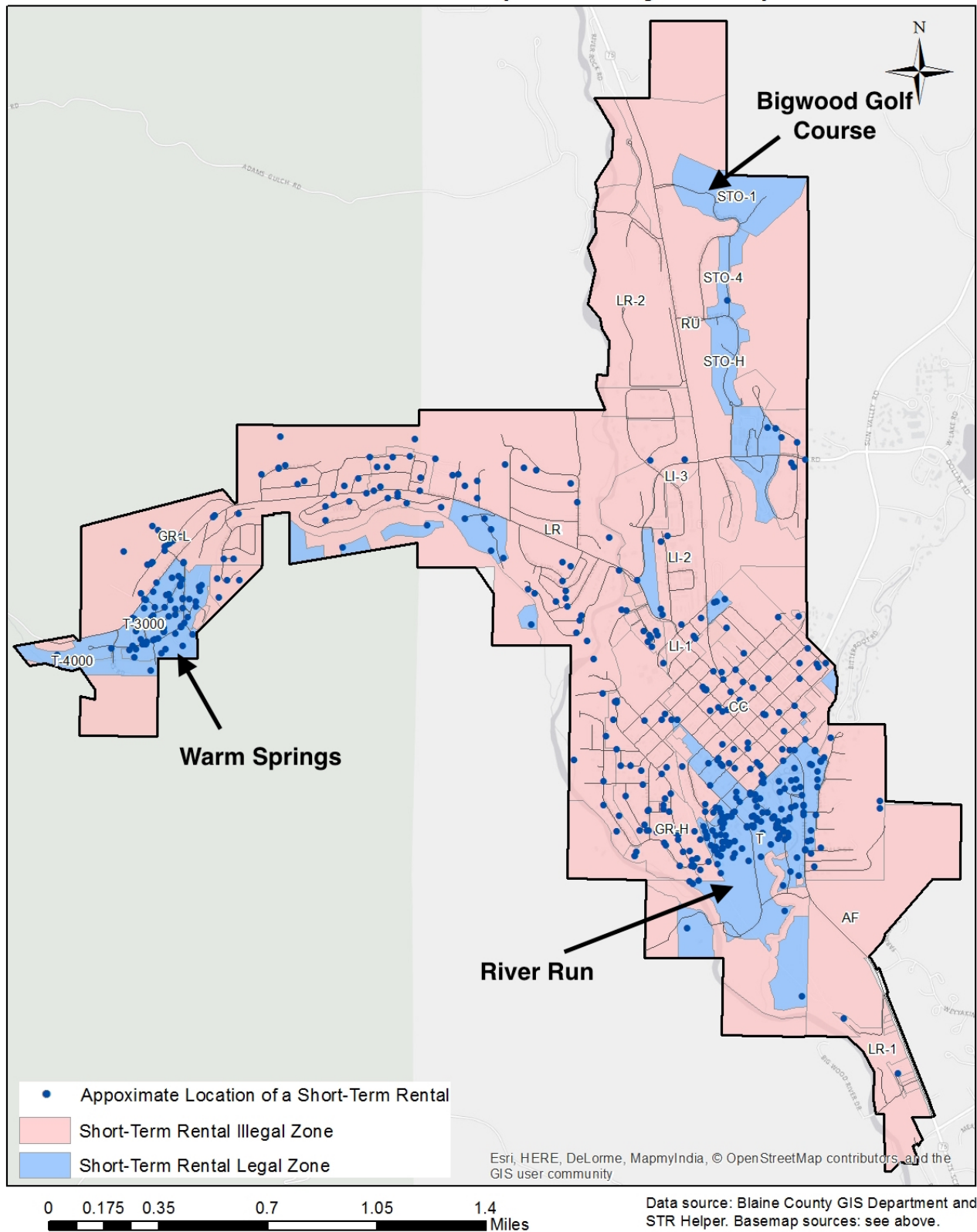


Figure 28: Short-term rental legal and illegal zones in the City of Ketchum, compared to the approximate location of known short-term rentals in February 2017. Legal zones include: STO-H (Short-Term Occupancy High Density), T (Tourist), T-3000 (Tourist 3000), T-4000 (Tourist 4000), STO-1 (Short-Term Occupancy 1-Acre), and STO-4 (Short-Term Occupancy 0.4 acres). Source: Blaine County GIS Department, 2017; STR Helper, 2017.

Impact: Short-Term Rental Are Distributed Across Ketchum, Regardless of Zone

The lack of enforcement of short-term rental zones has allowed the market to grow unchecked. The purchase of properties in illegal zones that are now used as short-term rentals grew dramatically in the 1990s (Figure 29), mirroring the overall growth in out-of-state residential property ownership discussed in the *Demographic and Housing Trends in the Long-Term* section. Many of these properties were probably purchased as vacation or investment homes, but are now also used as short-term rentals.

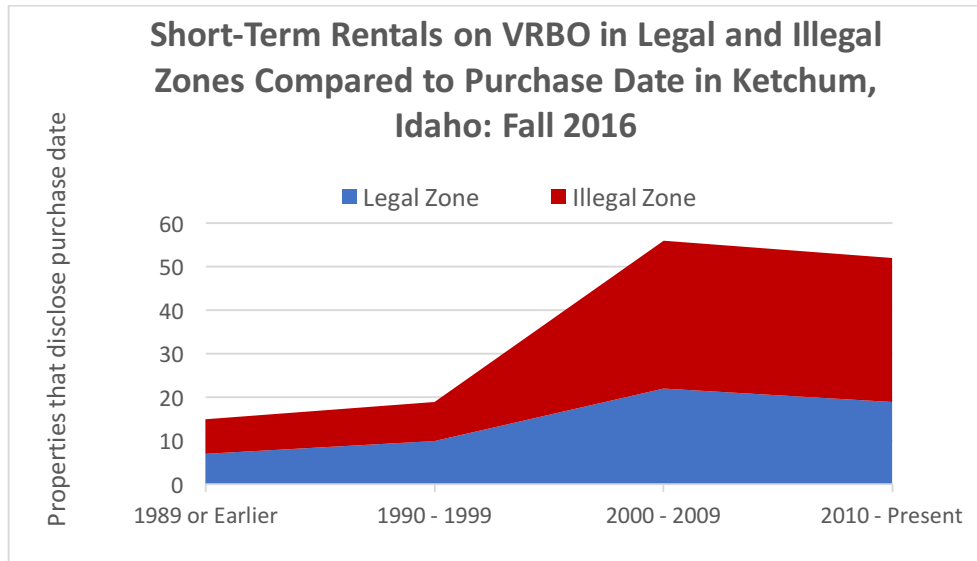


Figure 29: Relationship between short-term rental purchase date and zoning legality over time. Sample size = 326. Source: Vacation Rental By Owner, 2016.

Today, 42% of all short-term rentals are in illegal zones (Table 10) while 58% are in legal zones. Four zones hold 83% of all short-term rentals, and include the Tourist, GR-H and GR-L (General Residential High and Low Density), and LR (Limited Residential) zones. Only short-term rentals in the Tourist zone are legal. However, Idaho State Statute 67-6539 “Limitations On Regulation Of Short-Term Rentals And Vacation Rentals” requires all short-term rentals to be zoned residential. When the law goes into effect on January 1, 2018, Idaho cities will not be able to use zoning to regulate short-term rentals, and Ketchum’s legal and illegal zones will be irrelevant.

Table 10: Short-Term Rental Distribution Across Legal and Illegal Zones, 2016

Zoning Designation	Legality	Condos and Townhomes	Single-Family Homes	Short-Term Rentals Per Zone	Percent of Short-Term Rentals
CC (Community Core)	Illegal	19	3	22	7%
GR-H (General Residential High Density)	Illegal	38	2	40	13%
GR-L (General Residential Low Density)	Illegal	30	22	52	15%
LI-1 (Light Industrial 1)	Illegal	1	1	2	1%
LI-2 (Light Industrial 2)	Illegal	0	1	2	1%
LR (Limited Residential)	Illegal	17	28	45	13%
LR-1 (Limited Residential 1 Acre)	Illegal	1	1	1	0%
STO-H (Short Term Occupancy High Density)	Legal	0	1	1	0%
T (Tourist)	Legal	126	8	134	40%
T-3000 (Tourist 3000)	Legal	18	7	25	7%
T-4000 (Tourist 4000)	Legal	0	2	2	1%
Zone Unclear	NA	1	5	6	2%
Zones with No Listings					
AF (Agricultural & Forestry)	Illegal	0	0	0	0%
RU (Recreation Use)	Illegal	0	0	0	0%
LR-2 (Limited Residential 2 Acre)	Illegal	0	0	0	0%
LI-3 (Light Industrial 3)	Illegal	0	0	0	0%
STO-1 (Short Term Occupancy 1 Acre)	Legal	0	0	0	0%
STO-4 (Short Term Occupancy .4 Acre)	Legal	0	0	0	0%
Total Properties				332	100%

Source: Vacation Rental By Owner, 2016; City of Ketchum, 2016.

Impact: Potential for Negative Effects on Neighborhood Cohesion

Short-term rentals (and vacation homes) could negatively impact community character and cohesion when they are in neighborhoods where permanent residents live. High concentrations of these properties put neighborhoods at risk of becoming ghost towns when these homes sit empty. When they are occupied, there is always a risk of conflict between neighbors and guests. In Ketchum, the Warm Springs neighborhood and the neighborhoods to the south and west of the Community Core are the areas with the most short-term rentals and homeowner exemption⁷⁰ properties (vacation home location data is not available). However, short-term rentals and homeowner exemptions properties are distributed throughout Ketchum. Thus, the negative impacts on community character and cohesion could impact most, if not all, Ketchum neighborhoods.

⁷⁰ In Idaho, homeowners may claim the homeowner exemption on only one property: the property they claim to be their primary residence. It is important to note that a home owner is not required to be present year-round to claim a homeowner exemption; the home simply needs to be the 'primary' residence in Idaho. As such, the homeowner exemption is a useful, but not perfect, proxy for permanent residence.

Approximate Location of Short-Term Rentals and Homeowner Exemptions in Ketchum, Idaho (February, 2017)

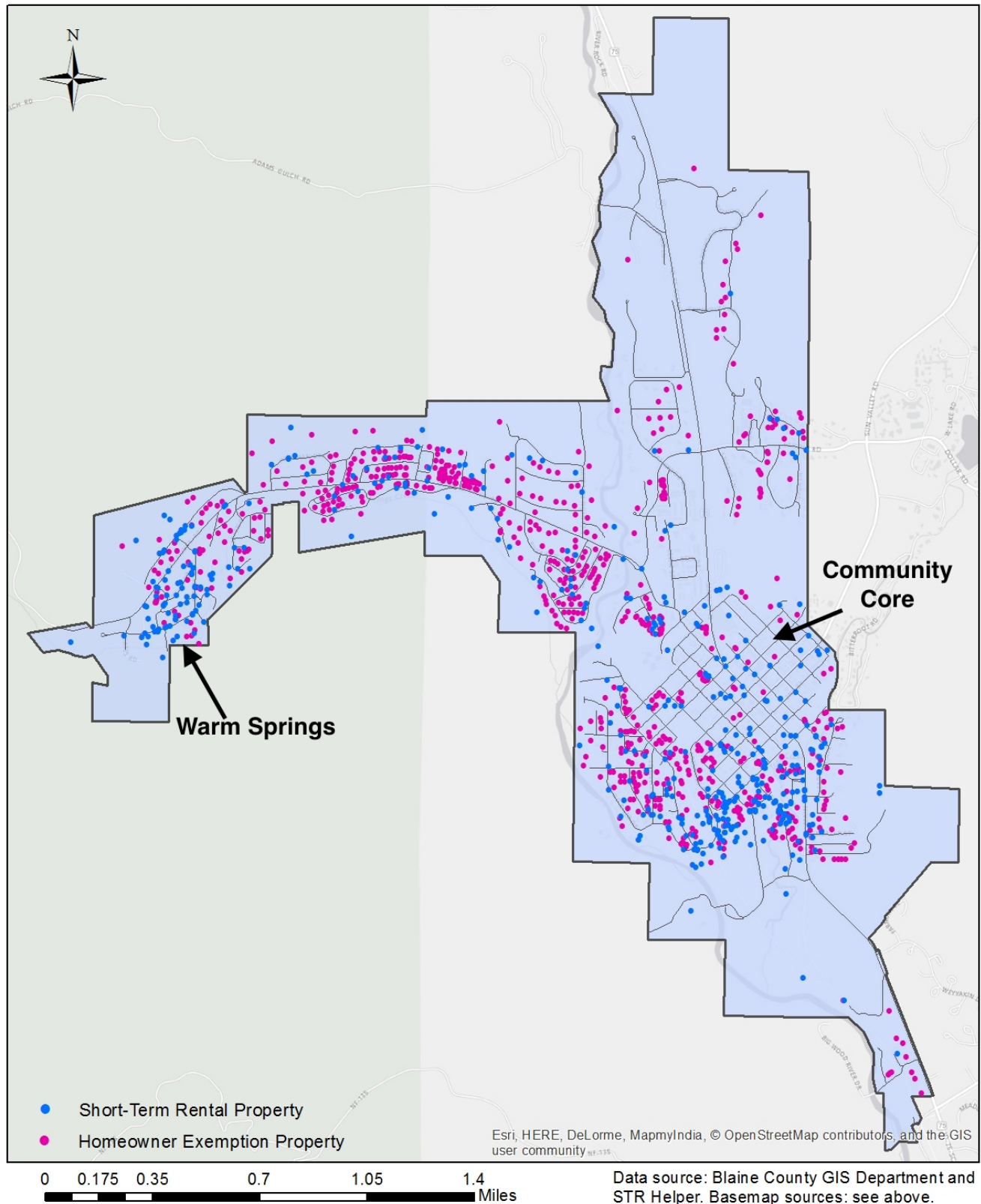


Figure 30: Approximate location of homeowner exemption properties and known short-term rentals in February 2017.
Source: Blaine County GIS Department, 2017; STR Helper, 2017.

Policy: Collect Revenue through Short-Term Rental Sales Tax Permits

Short-term rentals are an important source of revenue through Ketchum's Local Option Tax (LOT). The LOT is a sales tax that supports critical community needs, including transportation, open space acquisition, capital improvements, emergency services, city promotion and special events, property tax relief, and air service.⁷¹ All short-term rentals in Ketchum are required to obtain a sales tax permit (LOT remission permit) and pay 11% of their earnings in taxes. The City of Ketchum collects a 3% sales tax on lodging (2% to the City plus 1% for the Sun Valley Air Service Board). The remaining taxes include: 6% State sales tax and a 2% State-wide Idaho Travel Council Tax. Short-term rental hosts remitted approximately \$101,000 in sales tax revenue to the City of Ketchum in 2016.⁷² Hosts and guests also contribute to the LOT through local retail sales.

Impact: Lack of Enforcement Causes the City to Miss Out on Sales Tax Revenue

The City has made little effort to require unlicensed short-term rentals to get a sales tax permit because the prevalence of short term rentals and their exact locations were unknown. There are also limited penalties to punish short-term rentals that do not pay taxes. As a result, some short-term rentals do not pay sales tax because they do not have a permit, while others have a permit but may not remit the correct sales tax.

Advertised tax rates among Ketchum short-term rentals on VRBO in Fall 2016 indicate potential discrepancies between the correct sales tax amount and the amount short-term rentals remit (Figure 31). Only 30% of the short-term rentals in Ketchum on VRBO in fall 2016 advertised the correct rate of 11%, while another 38% said "Tax not included" or "Tax included." The "Tax not included" and "Tax included" groups are mostly property management companies, who very likely remit the correct rate. Thus, 68% of short-term rental hosts probably remit the correct sales tax rate. The remaining 32% of hosts appear less likely to remit proper sales tax, since 17% advertised an incorrect rate, and 15% advertised no tax at all.

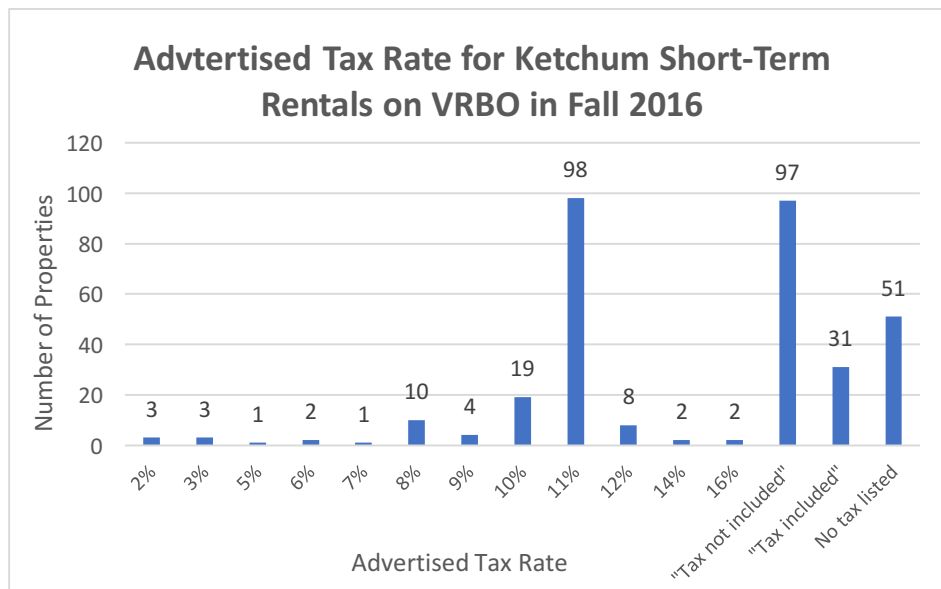


Figure 31: Various tax rates advertised by Ketchum short-term rentals on VRBO in fall 2016. Source: Vacation Rental By Owner, 2016.

Advertised tax rates also varied by owner home location. Short-term rental hosts with a permanent residence out-of-state had the highest rate of advertising the incorrect sales tax rate or no sales tax (42%), followed by 38% of owners from another part of Idaho, and 34% of owners from the Ketchum/Sun Valley area. Properties in short-term rental legal zones were slightly more likely to advertise the correct rate than in illegal zones (72%

⁷¹ City of Ketchum. (2011). *Local Option Tax*. Retrieved May 2, 2017 from <http://ketchumidaho.org/index.aspx?nid=440>.

⁷² City of Ketchum. (2017). Personal communication.

compared to 65%). New owners were most likely to advertise the correct rate: 63% of owners who purchased in 2010 or later advertised the correct rate, compared to 33% of owners who purchased in 1989 or earlier.

There were approximately 117 active short-term rental sales tax permits in Ketchum in July 2017, but some licenses cover more than one property. Therefore, the total number of licensed and unlicensed short-term rentals is unknown. Major players in Ketchum’s short-term rental market, such as property management companies and individuals most active on short-term rental hosting sites, probably have sales tax permits because they are more likely to operate as a business. Although many private individuals also have a short-term rental sales permit, unlicensed short-term rentals (the ‘gray market’) are more likely to be properties rented occasionally for supplementary income. Short-term rentals that operate without a sales tax permit, or who do not remit the correct sales tax rate, cause Ketchum to miss out on valuable sales tax revenue.

It is important to note that the impacts of not remitting the appropriate sales taxes vary by property type. Large, luxurious homes have the potential to generate far more sales tax revenue for the City than smaller properties. Nightly short-term rental prices on VRBO in Ketchum in fall 2016 ranged from \$48 - \$3,367 (Figure 32). One night of City of Ketchum sales tax (3% of the nightly price) from the most expensive property would be \$101.01, compared to just \$1.44 for the least expensive property. The least expensive property would have to be rented for 71 nights to generate the amount of sales tax that one rental night of the most expensive property would generate. Given the diversity in property prices, the total number of short-term rentals compared to short-term rentals covered by a sales tax permit is probably not a useful tool to estimate how much tax revenue the City should bring in.

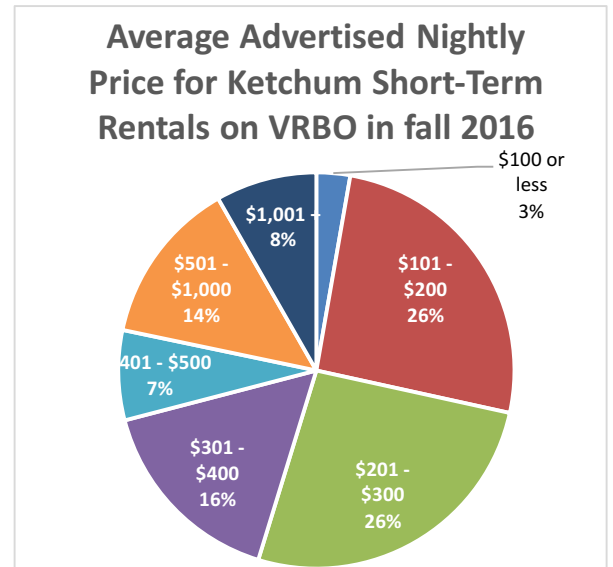


Figure 32: Average nightly rates for Ketchum short-term rentals on VRBO in fall 2016. Source: Vacation Rental By Owner, 2016.

There are several ways for the City to increase short-term rental sales tax revenue. They include efforts to grow the number of short-term rentals with sales tax permits, and contract with a software company to compare lodging nights to sales tax remission on an individual property basis. These options are discussed in detail in the *Recommendations* section later in this report.

Impact: Lack of Parity Between Short-Term Rentals and Hotels

Short-term rentals are often held to different standards than hotels even though they both provide tourist accommodations. A report on short-term rentals in Los Angeles also found differences between hotels and short-term rentals in health and safety, Americans with Disabilities ACT (ADA) compliance, fair housing requirements, service-industry job creation, and liability for damages and personal injury.⁷³ It is possible that some of these trends occur in Ketchum.

Ketchum hotels are more likely to remit sales tax than short-term rentals because they are an established business with local, national, or global reach. Failure to pay sales tax would represent a significant risk for the corporation and would negatively impact its ability to operate in Ketchum. As discussed in the *Probably Causes of Housing Unaffordability* section, short-term rental sales tax remittance rates appear to vary widely by property. Short-term rentals that fail to remit sales tax are responsible not just for a loss of revenue for the

⁷³ This section summarizes findings from Laane. (2015). *Airbnb, Rising Rent, and the Housing Crisis in Los Angeles*.

City, but also represents a discrepancy in how rules are enforced within the tourist-accommodation industry in Ketchum.

Ketchum hotels are also much more likely to follow higher health and safety standards than short-term rentals. There is currently no systematic process to ensure all short-term rentals in Ketchum are as safe and clean as a hotel. The City of Ketchum does not inspect properties that apply for a sales tax permit, so some short-term rentals may not meet health and safety standards. Some short-term rentals may also be occupied as frequently as hotels but may not be cleaned as often. In addition, there is little to no avenue for recourse if a guest arrives at a property that is unclean or unsafe. Visitors are at risk until short-term rentals held to the same health, cleanliness, and safety standards as hotels.

There is also no system in place to ensure Ketchum short-term rentals meet ADA standards. The ADA requires hotels or other public lodging facilities with at least five rooms to set aside ADA-accessible rooms. These rooms must install specific features and advertise them on the online reservation system. The Los Angeles report on short-term rentals found that short-term rental hosting sites do not verify whether properties that advertise 'ADA Accessible' rooms meet the requirements, nor do they require properties to comply with ADA standards. Guests who need ADA accessible rooms and arrive to find the property ADA-inaccessible have few to no options to find an ADA accessible property nearby.

Racism is also an unfortunate issue with short-term rentals, particularly on sites like Airbnb that require hosts and guests to post a picture. The Los Angeles short-term rentals report found that white hosts received 12% more for a similar apartment with similar ratings than black hosts. Ketchum is not as racially diverse as Los Angeles, and there are more listings on VRBO (which does not require members to post a picture) than Airbnb. As Ketchum strives to be a more open and inclusive community, it is important to be aware of racism as potential negative bi-product of the way some short-term rental hosting sites operate.

Short-term rentals also seem to provide fewer service-industry jobs than hotels. Hotels have front desk clerks, valet/parking workers, telephone operators, web development and reservation systems specialists, shuttle drivers, security, and janitorial staff. Short-term rentals may not require as many jobs, and often contract-out the cleaning and maintenance jobs that are needed. The same Los Angeles report found Airbnb properties provide only 20% of the hospitality jobs as hotels with the same number of rooms. One way that Ketchum differs from Los Angeles, however, is that there is a large real estate, property management, and landscaping industry around short-term rentals and vacation homes. It is unclear how many of these jobs exist just for short-term rentals, because many of them would exist anyway due to the large number of vacation homes.

The Los Angeles report also found short-term rentals unevenly distribute risk and liability among hosts, guests, and hosting companies. Companies treat hosts as independent contractors and claim to not be liable for property damage and personal injury. Hosts take on the greatest risk because they open their homes to visitors, and must contend with complaints and possible legal actions by neighbors, landlords, and local government regulators. Hosts are also expected to wrangle with their insurance companies unless they opt in to additional insurance to cover damages (provided by Airbnb; may or may not be provided by other hosting sites). Otherwise, home insurance policies do not usually cover commercial activities, making hosts responsible for thousands, if not millions in property damages and guest personal injury claims. A hotel worker would never rely on personal insurance to cover claims that occurred in the normal operation of the business. Short-term rental hosts and hosting companies should be held to the same standard.

Mountain resort communities have developed a variety of approaches to manage short-term rentals and foster workforce housing. Their policies are aligned closely with broader community goals, and vary greatly by

city. State laws also guide what cities can do. There is no one-size-fits-all approach, but instead there are policies tailored to meet each communities' needs.

Policies in Other Mountain Resort Communities

Mountain resort communities have a variety of approaches to promote workforce housing and regulate short-term rentals. This section profiles Breckenridge, CO—a leader in workforce housing development among mountain resort communities. It also summarizes short-term rental policies in 10 communities (Vail, Crested Butte, Aspen, Park City, Steamboat Springs, Telluride, Breckenridge, Jackson, Durango, and South Lake Tahoe). This section concludes with an overview of short-term rental policies in Durango, CO, Garden City, UT, Jackson, WY, and McCall, ID, each of which has unique policies to meet community goals.

Breckenridge, CO: A Model for Affordable Workforce Housing Development

Breckenridge is a model for affordable workforce housing among mountain resort communities.⁷⁴ Although it still has a high vacancy rate of over 70%, Breckenridge has added more than 1,000 deed-restricted rental and for-sale homes in the past few decades, and many more are under construction or planned. These homes are critical in Breckenridge's expensive housing market. In late 2017, there was a \$254,498 gap between the median sales price of a single-family home and what a median-income family of four could afford.⁷⁵

Breckenridge has successfully grown workforce housing for several reasons. It: 1) took ownership of workforce housing in the late 1980s, and continues to provide strong political leadership; 2) created strong housing plans with measurable goals and indicators to guide housing development; 3) updated the zoning and regulatory framework to make it easier and cheaper to build affordable homes; 4) continues to develop a variety of deed-restricted homes at many price points to meet resident needs throughout their lifecycles; 5) implements several programs to make long-term rentals more viable and profitable; and 6) fosters regional coordination.

Ownership of Workforce Housing and Strong Political Leadership

Breckenridge made affordable workforce housing a priority in the 1980s, when a new development code enabled it to build its first deed-restricted homes. Breckenridge has continued to take ownership of housing affordability ever since. The code "is a combination of traditional zoning and performance zoning and incentivizes development that benefits the community such as deed restricted workforce housing."⁷⁶ County-wide voters also approved several ballot measures to fund affordable workforce housing, including a 0.125% sales tax, a development impact fee to incentivize workforce housing, and a 0.6% sales tax to create a Construction Fund. The measures generate approximately \$3,000,000 every year to fund the preservation and development of affordable workforce housing.

Strong Housing Plans

Breckenridge has several strong housing plans with clear goals and targets. The Town regularly update its plans to catalog new housing, identify what is missing, and plan for how it can reach its housing goals. Specific plans include: 1) the Valley Brook / Block 11 Vision Plan to develop up to 400 homes on Town-owned property over a 10-year period; and 2) the 2008 Workforce Housing Action Plan to acquire current market-rate homes and convert them to permanently-affordable workforce housing.

⁷⁴ Town of Breckenridge. (2017). Personal communication.

⁷⁵ Town of Breckenridge. (2017). Workforce housing. Accessed October 14, 2017 at <http://www.townofbreckenridge.com/your-government/departments-services/community-development/workforce-housing>.

⁷⁶ Town of Breckenridge (2017). Workforce housing strategies. Accessed October 14, 2017 at <http://www.townofbreckenridge.com/your-government/departments-services/community-development/workforce-housing>.

Develop a Variety of Deed-Restricted Homes at a Variety of Price Points to Meet Resident Needs

Breckenridge works with developers to continuously build a mix of home types and price points on Breckenridge-owned land to meet residents' housing needs throughout their lifecycle. Breckenridge initially focused on moderate-income housing because that was the area of greatest need, but the Town is now constructing more rental housing for low-income residents and students. Prices are set at a range of rental and ownership options to be affordable to households making 80% - 180% of the Area Median Income. The Breckenridge Town Planning Department leads the effort to build new housing, but the Summit County Housing Authority manages these homes after they are built. Breckenridge's deed-restricted homes also prohibit short-term rentals. Many homes also restrict occupancy to local employees who work at least 30-hours per week in the county, and cap resale, appreciation, and income, in addition to other restrictions.⁷⁷

Programs to Make Long-Term Rentals More Viable and Profitable

Breckenridge has a pilot program to match long-term tenants with landlords and provide property management services to incentivize long-term rentals. The *Housing Works Initiative* program is a collaboration between The Summit Foundation, the non-profit Family and Intercultural Resource Center, and the Summit Combined Housing Authority. It was launched in mid-2016 to match people who need a year-round home with 45 property owners who want to convert from short- to long-term rentals. The program provides free property management and qualified, stable tenants. Summit County Housing Authority provides the landlord relations and property management components, the Family and Intercultural Resource Center recruits and educates tenants, and the Summit Foundation provides funding.

To qualify, tenants must be employed locally and live year-round in Summit County, earn a household income between \$40,000 - \$100,000, and be able to sign a one-year lease. This program targets middle-income households because that income bracket is the area of greatest need. The program has higher income limits than other workforce housing programs because it targets professionals—school teachers, emergency and health care workers, administrators, etc. Tenants must also take a six-month course on how to be a good renter, agree to credit and background checks, and allow monthly inspections by the Housing Authority.

The Summit Foundation provided \$50,000 for the first three years, but they hope towns and employers will find value in supporting workforce housing for residents and employees in the future.⁷⁸ Initial funding is distributed as follows: \$20,000 for the Housing Authority to hire an independent contractor to provide the property management services, \$20,000 to the Family and Intercultural Resource Center to supplement an existing employee's salary to take on additional duties, and \$10,000 to cover the \$1,000 security deposits for the first 10 homes in the program.⁷⁹ In October 2017, Housing Works had provided 17 property owner and tenant matches, and was seeking more properties.⁸⁰ It is too early to evaluate the long-term results of this project, but it certainly is an innovative and promising solution to the loss of workforce rental housing.

Foster Regional Coordination

Breckenridge works closely with the Summit Combined Housing Authority, which represents jurisdictions within Summit County, to coordinate housing programs within the Town limits and across the County. The Housing Authority was formed in 2006 after voters approved a County-wide sales tax and impact fee, and provides County-wide services for renters and owners.⁸¹

⁷⁷ More information on the different types of deed-restrictions in Breckenridge is available at: <http://www.townofbreckenridge.com/work/workforce-housing/rules-regulations>.

⁷⁸ Family & Intercultural Resource Center (2017). *Housing Works Initiative*. Accessed May 2, 107 from <http://www.summitfirc.org/assistance/housing-works-initiative/>.

⁷⁹ Fixler, K. (2016). Summit housing partnership targets long-term family rentals. *Summit Daily*. Published May 25.

⁸⁰ No author. (2017). Housing Works Initiative seeks property owners. *Summit Daily*. Published October 25.

⁸¹ See Summit Combined Housing Authority website at <http://www.summithousing.us>

Update the Zoning and Regulatory Framework to Make It Easier and Cheaper to Build Affordable Homes
 Breckenridge uses techniques to encourage the development of workforce housing. They include free density, waiver of annexation and building permit fees, exemption from the real estate transfer tax, and no plant investment fees for water service. Some of these mechanisms may be feasible in Idaho, but Ketchum would have to explore what is legal under Idaho State Law. Breckenridge also enables higher-density development on annexations through a transfer of development rights, deferred water tap fees, and a waiver of permit fees. A minimum of 80% of the homes on the proposed annexation must be developed as deed-restricted housing to receive these benefits. In sum, Breckenridge’s innovative policies have helped protect, preserve and grow their affordable housing supply to the benefit of residents, employees, and the community.

Summary of Short-Term Rental Policies in Mountain Resort Communities

Mountain resort communities’ short-term rental policies fall on a spectrum from passive (top of Table 11) to aggressive (bottom of Table 11).⁸² All cities require short-term rentals to have a sales tax permit or business license, and pay taxes. They also charge a fee to operate a legal short-term rental. Vail and Crested Butte have taken a passive approach and do not have additional requirements, although Vail does have an additional quality rating system. Durango, South Lake Tahoe, and Jackson have taken the most aggressive approaches. These cities have additional zoning, life safety, public notice, and education requirements. Durango and South Lake Tahoe also require short-term rental permits, and charge the highest permit fees (\$750+ and \$545+), while Jackson requires homeowners’ association (HOA) approval, if applicable. In comparison to other mountain resort communities, Ketchum has taken a passive approach to short-term rental regulation.

Table 11: Summary of Residential Short-Term Rental Requirements by Municipality

Municipality	Zoning	Life Safety	Public Notice	HOA	Tax	Business License	Permit	Education	Quality Rating	Fees
<i>City of Ketchum, ID</i>	X*				X	X				\$0
Town of Vail, CO					X	X			X	\$162 +
Town of Crested Butte, CO					X	X				\$10 +
City of Aspen, CO				X	X	X	X	X		\$150 +
Park City Municipal Corporation, UT	X	X			X	X		X		\$149 +
City of Steamboat Springs, CO	X			X	X	X	X			\$500 +
Town of Telluride, CO	X				X	X				\$187 +
Town of Breckenridge, CO	X				X	X	X			\$75 +
Town of Jackson, WY	X	X	X	X	X	X		X		\$37 +
City of Durango	X	X	X		X	X	X	X		\$750 +
City of South Lake Tahoe, CA	X	X	X		X	X	X	X		\$545 +

Source: Garrison, R., Cares, C., & McLeod, B. (2017). Rent by Owner Study, Executive Summary. Presented to the Town of Vail Economic Development and Finance Departments on April 25, 2017. Reproduced with permission. Ketchum data source: City of Ketchum Sales Tax Permit Application (2011) and Zoning Code (2015).

* Idaho State Statute 67-6539 “Limitations On Regulation Of Short-Term Rentals And Vacation Rentals” prevents municipalities from using land-use mechanisms to regulate short-term rentals. Therefore, when the law goes into effect on January 1, 2018, zoning can no longer be used to regulate short-term rentals in Ketchum.

⁸² Garrison, R., Cares, C., & McLeod, B. (2017). Rent by Owner Study, Executive Summary. Presented to the Town of Vail Economic Development and Finance Departments on April 25, 2017. Reproduced with permission.

This section explores short-term rental policies in Jackson, WY, Durango, CO, Garden City, UT, and McCall, ID.

Short-Term Rental and Workforce Housing Policies in Durango, CO

The City of Durango has taken one of the most aggressive approaches to regulating short-term rentals because it wants to be a year-round, economically resilient community where people can live and work, and not depend solely on tourism.⁸³ Durango's City Council was very supportive of strong short-term rental regulations to protect its workforce housing supply and preserve neighborhood character. It put in place aggressive short-term rental policies before many short-term rentals were operating in Durango, thereby getting ahead of the rapid short-term rental growth that took place in other mountain resort communities.

Durango allows short-term rentals to operate with a Limited Use Permit (LUP), but only in a few zones (EN-1, EN-2, EN-MF, RM, RH, CB, MU-N, MU-A, and some PD zones).⁸⁴ EN zones refer to established neighborhoods, R zones are residential, CB is the central business district, MU zones are mixed use, and PD refers to planned development. The City also worked with neighborhood associations to identify short-term rental caps. Within the residential zones, only one short-term rental can have a permit per street segment. A second short-term rental may be permitted if it meets specific criteria and obtains a Conditional Use Permit. Durango also places caps on the total number of short-term rentals within the EN-1 and EN-2 zones: Only 22 legal short-term rentals *total* can operate in the EN-1 zone, and 17 in the EN-2 zone. Other zones do not have a density cap.

Durango also has a stringent short-term rental permit application process and high application fee (\$750). The LUP application process requires short-term rental hosts to complete the following:

- "A completed Land Use Application.
- Fee.
- A list of all property owners and mailing addresses within a 300-foot radius of the subject property.
- A written Narrative describing the proposal and how it meets the VR requirements. The narrative must include: local contact person/property manager details, occupancy limits, and the number and location of parking spaces provided.
- A scaled site plan showing parking spaces, access to the unit, trash/recycling bin locations, and other relevant information.
- A scaled floor plan showing the layout of the unit, dimensions of all bedrooms, the location of the fire extinguisher, and other relevant information.
- Any additional materials, which in the opinion of the Administrator, are necessary to adequately review the application as determined by the Staff within five (5) working days of application."⁸⁵

After receiving a completed application, the City notifies the public about the proposed short-term rental. It posts a notice on the property for 14 days, sends letters to neighbors within a 300-foot radius, allows for public comments on the proposal, and conducts a site visit and building inspection. If the City denies the application, the applicant can appeal to the Planning Commission and City Council.

Durango has additional requirements for short-term rentals. Hosts must:

- Post the permit number on all advertisements. Failure to do so can lead to permit revocation.

⁸³ City of Durango. (2017). Personal communication.

⁸⁴ City of Durango. (2014). Limited Use Permit. Accessed October 22, 2017 at <http://www.durangogov.org/documentcenter/view/131>.

⁸⁵ City of Durango. (2014).

- Not transfer the permit to another person or legal entity. The short-term rental permit is terminated when the property is sold.
- Provide one off-street parking space for each bedroom in most cases.
- Obtain a Business License.
- Obtain a Lodging Sales Tax License.

Once approved, the City posts the short-term rental on an online map. This map identifies legal short-term rentals, and allows neighbors to report illegal short-term rentals.

These policies appear to be quite effective in capping short-term rentals, especially in residential areas. Durango has a low housing vacancy rate (10%), and high owner and renter occupancy rates (42% and 48%).⁸⁶ There have been a few court cases for short-term rental violations, but the City's education, outreach, and cooperation with the real estate and property management companies helps reduce potential illegal short-term rentals. The City also worked with the software company VR Compliance to track and shut-down illegal listings, and set up a neighborhood waitlist for prospective short-term rentals. However, the City is looking to amend the City Code to make administrative level fines stronger to further deter illegal short-term rentals.

In sum, quotas, high fees, and an onerous application process probably do much to deter illegal rentals in Durango. These policies also limit potential benefits of short-term rentals, including flexibility of use as homeowners move throughout their lifecycle. Idaho State Law prohibits short-term rental regulations like Durango's. However, Durango's low vacancy rate and higher owner and renter occupancy rates indicate these policies probably prevent some conversion to short-term rentals.

Short-Term Rental and Workforce Housing Policies in Garden City, UT

Garden City, UT, is another a leader in short-term rental regulations. Garden City's short-term rental policy goals are to foster harmony and a high quality of life.⁸⁷ Short-term rentals can operate anywhere in the City, except where homeowners' associations prohibit them. The City requires short-term rentals to have a license to operate legally, and it defines a clear process for obtaining and revoking a license. The City also builds in penalties to deter illegal rentals and other violations.

When considering initial short-term rental policy options, the City recognized that a one-size-fits all approach would not work. Instead, it collaborated with the Utah League of Cities to draft and pass initial short-term rental policies in the early 2010s. Garden City has since refined these policies based on diverse stakeholder input. Its policies have a high degree of transparency and cater to the entire community—not just members with the loudest voices.

Garden City continues to use meetings with the public and key stakeholders to solicit input and identify new issues or ideas that have not been considered previously. These meetings educate the public about the regulations, and notify residents of the City's ability to track and fine illegal short-term rentals. The City also recruits key stakeholders to participate in a short-term rental working group that meets on a quarterly basis to draft and update regulations. For example, the working group recently considered whether cement pads for trailers that are rented short-term should pay the same taxes as other short-term rentals.

Garden City's ongoing, iterative process allowed it to start with some basic best practices, and then update the policies as needed. For example, initial compliance was low because early policies did not fine illegal rentals.

⁸⁶ Housing vacancy data from Garrison, R., Cares, C., & McLeod, B. (2017).

⁸⁷ Garden City. (2017). Personal communication.

The City later updated the policies to include fines, and the number of illegal rentals dropped dramatically. Garden City’s mayor also helped develop the software STR Helper, which the City continues to use to track, monitor, and send letters to illegal rentals. The software also provides evidence of an illegal rental, which the City can use if it needs to take a short-term rental host to court. STR Helper also identifies properties that do not appear to pay their full lodging and sales taxes.

Garden City’s short-term rental policies are clear, easy to understand, and reduce the potential for ambiguity.⁸⁸ They start by defining important terms:

- Application
- Complete application
- Clerk
- Floor Plan
- Nightly/Short Term Rental
- Owner
- Parking space
- Property or Short Term Rental Property
- Property Management Company
- Sleeping Area
- Temporary Access Easement
- Town
- Use With Criteria
- Valid Objection

Garden City is also very clear about the components need for a complete short-term rental application:

- Completed/filled-out application
- Proof of ownership for each unit
- Site plan (drawn to scale, including parking area and parking spaces)
- Proof of valid insurance for each unit
- Proof of valid liability insurance for the owner, property management company or other similar entity, contact person
- Floor plan drawn to scale with dimensions
- Zone designation and street address
- Temporary Access Easement if vehicles cannot directly access property from a public street
- Copies of valid town and state sales tax collection and accounting numbers in the property owner or manager’s name
- 24-hour contact person (name, address, contact info) for property management company
- or person living within 15-minutes of the property
- Inspection by the building inspector and fire chief
- Signed acknowledgement that the owner, property manager or other person read the regulations for short-term rentals
- Owner and property manager (if applicable) signature assuring the accuracy of the application and agreement to comply with regulations

Garden City’s short-term rental ordinance is also clear about the process to approve or deny an application. The owner or owner’s agent files an application with the City Clerk, and the application is reviewed and approved by the City Council. If applicable, the Council reviews all Valid Objections, which include “an objection based on: 1. The Owner's objective failure to file a Complete Application; or 2. The Owner's failure to meet any of the required criteria for the issuance of a Short Term Rental License.”⁸⁹ The Council approves the short-term rental if these issues are addressed. Otherwise, the license is denied.

The process to renew a license is also clear. Short-term rental licenses are valid for one-year, and they should be renewed prior to January 1st. Once the host pays the renewal fee, the license is renewed automatically if

⁸⁸ Garden City (2017). Municipal Code, Chapter 8-601: Short-Term Rental Ordinance. Retrieved March 6, from https://siterepository.s3.amazonaws.com/709/ordinances_2017_02a.pdf.

⁸⁹ Garden City (2017).

there are no substantive changes to the information in the license application. A license is automatically suspended if it is not renewed by January 1st, and penalties for non-renewal increase as more time passes.

Policies that permit the legal operation of short-term rentals make sense for Garden City. It is a vacation community, but Garden City is not as expensive as Ketchum. Garden City's 2015 median home value (among occupied homes) was \$245,00—much less than Ketchum's \$633,700, according to American Community Survey data.⁹⁰ Garden City's 2015 median household income—at \$46,806—was also not much lower than Ketchum's, which was \$50,319. There is also ample affordable housing close to Garden City 30 minutes away in Montpelier, Idaho. Montpelier's 2015 median home value was only \$127,200, while the median income was in fact higher than in Garden City, at \$65,179—probably because much of Garden City's workforce lives in Montpelier. Unless Garden City decides to house more of its workforce locally—which would require a more aggressive approach to growing the workforce housing supply (and perhaps include more stringent short-term rental policies)—Garden City's well-crafted short-term rental policies meet current community needs.

Short-Term Rental and Workforce Housing Policies in Jackson, WY

Jackson, WY has ambitious workforce housing policies and stringent short-term rental policies because the Town aims to house much of the workforce locally, and protect the character of Jackson's residential neighborhoods. These policies may be a factor in the Town's low housing vacancy rate (18%) and high owner and renter occupancy rates (32% and 50%, respectively).⁹¹ However, the Town has encountered challenges in implementing and enforcing its policies, and it is now attempting to update them to be more effective.

Jackson first instituted short term rental policies in 1994. The Town adopted a Lodging Overlay that restricted all hotel/motel units and short-term rentals to specific areas in Downtown Jackson and the Snow King Resort. The intent of the Overlay was as follows:

“More directly affecting seasonal employees is the fact that the rental market is also catering to the tourist. It is now more lucrative for landlords to rent their units to short-term vacationers than to longer term occupants, be they permanent or seasonal employees. The experience of the Jackson Hole Racquet Club in the Aspens demonstrates this: while essentially as many units were under management in 1991 as in 1984, the mix of occupants has dramatically changed. In 1984, 55 percent of the units were rented on a long-term basis while 45 percent were rented short term (less than thirty days). In 1991, only 13 percent of the units were rented on a long-term basis and 87 percent were rented short term.”⁹²

It was difficult to consistently enforce these policies, so Jackson instituted additional short-term policies in 2016. Short-term rentals are still banned outside of the Lodging Overlay and Snow King Resort Districts, and illegal hosts are now charged with a misdemeanor. Additionally, hosts are required to:

- Pay for a short-term rental business license, which must be renewed annually.
- Undergo an annual fire inspection/building inspection.
- Identify a representative located within Teton County, WY who can be on call 24/7.
- Obtain approval from the homeowners' association (if applicable).
- Notify neighbors within 300 feet of the intent to operate a short-term rental.
- Include the valid permit number and link to Jackson's short-term rental law on all advertisements.
- Pay all applicable lodging and sales tax on short-term rental earnings.

⁹⁰ U.S. Census Bureau. (2011 – 2015). American Community Survey 5-Year Estimates.

⁹¹ Housing vacancy data from Garrison, R., Cares, C., & McLeod, B. (2017).

⁹² Town of Jackson. (2002). Joint Comprehensive Plan, 3rd Printing, October, p. 5b-8.

The primary goal of these policies is to meet Jackson’s 2012 Comprehensive Plan goals to house 65% of its workforce locally and maintain a community character not wholly dependent on tourism.⁹³ The Town hopes to stem conversions of long- to short-term rentals, and to prevent losses in workforce housing, both of which could help achieve Plan goals. Jackson consistently has a worker shortage, which anecdotal evidence suggests is worse than in past years, and some residents speculate it is because short-term rentals reduce the affordable housing supply. While short-term rentals probably attract more visitors—which do have a positive fiscal impact—Jackson would also like to move away from its service- and tourism-based economy. Instead, the Town wants to prioritize preserving community character, and hopes to meet demand for tourist lodging through the construction of new hotels—several of which are underway—instead of short-term rentals.

Jackson also instituted these policies to address growing for-sale home prices. The Town wanted to address the perceived role of short-term rentals in encouraging real estate speculation (the purchase of short-term rental investment properties), and causing property values to increase. In addition, Jackson wanted to protect the character of its residential neighborhoods from the noise, activities, and constant rotation of visitors that it believes can diminish the neighborhood livability and quality of life.

Jackson has encountered many challenges in carrying out these policies, however. Jackson uses its Municipal Code rather than its Land Development Regulations (LDRs) to regulate short-term rentals because LDR enforcement mechanisms are not very strong. As a result, short-term rental violations are prosecuted as a criminal matter, which require attorneys to prove, beyond a reasonable doubt, that the accused violated Municipal Code regulations. The burden of proof is very high, and finding evidence is expensive and time-consuming for City staff. It is also difficult to get neighbors and rental hosting sites to testify against offenders.

Another challenge is that people exploit a loophole in Jackson’s regulations. Current regulations prohibit rentals of fewer than 31 days. However, short-term rental hosts sometimes draft a 31-day lease—which short-term rental guests sign—that gives renters exclusive rights to the unit for 31 days. Few visitors stay the full amount time, but short-term rental hosts engage in this practice because they find it financially feasible to rent their home for 31 days each instead of offering long-term term leases. These types of rentals may have fewer impacts on neighborhood character because they are not rented as frequently as other short-term rentals, and the 31-day lease may deter potential renters. However, short-term rentals with 31-day leases may still remove affordable ownership and long-term rental homes from the local housing market.

To address these enforcement challenges, the Town may amend its LDRs to incorporate more effective enforcement mechanisms. Currently, LDR enforcement results in abatement procedures that can last a year and a half. Going forward, the Town hopes to process short-term rental cases in an administrative court. In early 2017, Jackson also contracted with the short-term rental software company Host Compliance to catch and provide documentation on illegal short-term rentals. Host Compliance tracks usage and permits, and sends letters to violators asking them to cease short term rental activities.

Many of Jackson’s challenges to regulate short-term rentals stem from the fact that many hosts believe short-term rentals are more profitable than long-term rental leases. Economic incentives to violate Jackson’s short-term rental rules are so strong that enforcement is not always a true deterrent. For example, someone can rent their modest home for \$15,000 per month as a short-term rental but only for \$3,000 as a long-term rental. Internet hosting sites such as VRBO and Airbnb also enable landowners and renters to find each other quickly and conduct transactions over the internet, so the scale of short-term rentals in Jackson is not likely to

⁹³ Town of Jackson. (2017). Personal communication.

diminish any time soon. Despite enforcement challenges, the Town believes its short-term rental policies have given violators or would-be-violators reasons to think twice before operating an illegal short-term rental.

Short-Term Rental and Workforce Housing Policies in McCall, ID

McCall also takes a relatively passive approach to regulating short-term rentals. Short-term rentals have been present for a long time, and regulating them would require an additional staff person.⁹⁴ The City only regulates very large short-term rental properties, although all short-term rentals must pay the Local Option Tax. Large short-term rentals must obtain a Conditional Use Permit (CUP), which manages noise, parking, and other impacts of large events. New CUP properties are not allowed to have weddings, and must respect quiet hours after 10pm. If a property receives several complaints, the City can revoke the CUP.

McCall also has severe housing affordability issues. The City is in the process of developing a housing strategy because it needs 150-200 more homes, at different price points, to fulfill demand. Anecdotal evidence suggest that housing unaffordability is also a factor in unfilled jobs and population loss. Finding a rental property is very difficult because many rentals are not advertised, but are filled through word-of-mouth.

The City of McCall Municipal Code does contain two provisions to generate workforce housing—also known as Community Housing. It incentivizes Community Housing with a “density bonus” provision for Planned Unit Developments (PUD), that allows developments to be 20% more dense if at least 50% of the units are workforce housing. Planned Unit Developments are permitted in all zones.⁹⁵

McCall faces a complicated situation because it does not have enough hotel rooms to meet tourist demand. The City now hopes to incentivize hotel development closer to town. Therefore, efforts to prevent the conversion to short-term rentals could exacerbate the lack of tourist accommodations if new hotels are not built. Given the new Idaho State Law that limits local regulation of short-term rentals, it is likely the number of short-term rentals in McCall will continue to grow. In the future, McCall may have to explore additional policies and programs to incentivize more workforce housing to meet community needs.

Issues for Ketchum to Consider When Evaluating Policy Options

There are several issues for Ketchum to consider for policies on workforce housing, short-term rentals, and vacation homes. These issues include: Idaho state laws that constrain workforce housing and short-term rental regulations, limitations of zoning and nuisance law, pro-property rights arguments that enable short-term rental growth, the potential for conflicts between cities and short-term rental hosting sites, and the lack of information about the ‘gray market’—the short-term rentals and vacation homes not under professional property management. Vacation homes and short-term rentals also bring many economic and other benefits.

Benefits of Vacation Homes and Short-Term Rentals

Short-term rentals and vacation homes have several positive economic and other impacts in Ketchum. They provide tourist lodging options, pay sales and property taxes, and support the real estate and property management industries. The extra income that short-term rentals provide may enable some Ketchum permanent residents to stay in their homes, and out-of-state owners to maintain a presence in Ketchum and become part of the community over time.

⁹⁴ City of McCall. (2017). Personal communication.

⁹⁵ City of McCall. (2017). Title 3: Planning and Zoning, Chapter 10: Planned Unit Development, Section 24: Density Bonus.

Ketchum Depends on Tourists

Ketchum's tourism-dependent economy relies on occupied short-term rentals, vacation homes, and hotel rooms. Almost 19% of Ketchum's workers in 2015 were employed in the finance, real estate, insurance, property management, or construction industries,⁹⁶ which depend on the purchase and management of vacation homes and short-term rentals. An additional 37% of Ketchum's workers were employed in retail, arts, entertainment, recreation, accommodation, or food service. These workers depend on tourists. It is important to consider the role of tourism in Ketchum's economy when evaluating future housing affordability policies and their potential impacts on these industries.

Housing Flexibility and Extra Income for Hosts

Short-term rentals and vacation homes allow homeowners to adapt how they use their homes as they move through their lifecycle. Renting short-term provides permanent residents and vacation homeowners the flexibility to earn extra income on their own time. For example, a family with young children might rent their home to tourists during a 2-week vacation in the summer, while a retired couple might rent their property short-term during the winter when they are in a warmer climate. Their homes would be vacant without the short-term rental market. Tourists would stay in a hotel, and owners would not earn extra income. The short-term rental market bridges this gap. Lastly, vacation homes also enable families from other locals to spend time in a beautiful place like Ketchum, and become a member of the community over time.

More Options and Lower Lodging Prices for Tourists

Short-term rentals increase the quantity and type of tourist accommodations. An April 2017 study on transient lodging inventory in the Sun Valley region identified 328 hotel/motel/lodge rooms in Ketchum, which provide 1,112 pillows.⁹⁷ Property management companies oversee an additional 221 condos, private homes, and other lodging types that provide 1,282 more pillows. The total pillows provided by Ketchum hotels, motels, lodge rooms and professionally-managed short-term rentals is 2,394. Thus, professionally-managed short-term rentals double the number of pillows in Ketchum. This study does not include short-term rentals on the 'gray market'—properties that are not professionally managed. The total short-term rental market (including the gray market) may triple or quadruple the number of pillows. In sum, short-term rentals greatly increase available lodging options, and may keep lodging costs lower by introducing competition into market.

Short-Term Rentals Minimize the Need for New Hotel Construction

Short-term rentals minimize the need for the construction of new hotels to accommodate tourists during high seasons. Ketchum is already under pressure to preserve open space and town character, particularly in the community core. The construction of new hotels to accommodate all of Ketchum's tourists is not feasible, nor is it economically or environmentally viable. It would be a mistake to construct new hotels to accommodate visitors for one at-capacity event per year, such as the annual Nordic Festival, because the hotel could sit empty the rest of the year. Existing housing that also accommodates tourists saves construction materials, reduces the potential for pollution from new construction, and preserves open space. The City can also determine the type of development it wants instead of having to approve an abundance of new hotels.

Idaho State Laws that Limit Short-Term Rental and Affordable Housing Regulations

Idaho is a pro-property rights state that lacks many legislative and regulatory tools available in other states to regulate short-term rentals, and produce and preserve affordable housing. One reason is because Idaho is also a Dillon's Rule state. Local municipalities have limited ability to act unless expressly authorized by the State.

⁹⁶ U.S. Census Bureau. (2011 - 2015). American Community Survey 5-Year Estimates.

⁹⁷ Destimetrics. (2017). Sun Valley Transient Inventory Study. Unpublished. Used with permission.

The Idaho State Legislature does give Idaho cities and counties the power to zone through the Idaho Local Land Use Planning Act (LLUPA—Title 67 State and Government Affairs, Chapter 65 Local Land Use Planning). Cities can adopt a zoning ordinance regulating land use, setbacks, heights, and the use of buildings, etc. However, cities must tread carefully when considering implementing short-term rental and affordable housing policies that might be deemed outside of their authority.

Limitations on Affordable Housing Tools

Many tools to create affordable housing in other states are either illegal or difficult to implement in Idaho because Idaho is a Dillon’s Rule state. These tools include real estate transfer taxes, mandatory inclusionary zoning, commercial linkage fees, and other tax advantages. Idaho’s non-disclosure law also creates an additional barrier to affordable housing funding through real estate. It prevents local municipalities from compelling property owners and real estate agents to disclose the current value and/or sale price of their property. Instead, local and state tax assessors must assess taxes based on a property value estimate. This law would need to be repealed before a real estate transfer fee could be implemented.

Further research is needed to explore if the following workforce housing tools are legal in Idaho: city subsidies, voter-approved housing sales tax and/or use of the Local Option Tax to fund workforce housing, development fees, impact fees, and real estate transfer fees that are negotiated with, but not required for, each development agreement or annexation.

Idaho State Short-Term Rental and Vacation Rental Act

Idaho State Statute 67-6539 “Limitations On Regulation Of Short-Term Rentals And Vacation Rentals” limits local control of short-term rentals and becomes effective January 1, 2018.⁹⁸ Unfortunately, the Act prohibits many best practices, including permits, that have helped mountain resort communities manage short-term rentals in other states. Arizona passed a similar bill in early 2017, while bills to limit local control of short-term rentals have been introduced in state legislatures across the country. In Idaho, local governments are no longer allowed to:⁹⁹

- Implement “a sales, use, franchise, receipts, or other similar tax or fee on the business of operating a short-term rental marketplace.”
- Enact “any ordinance that has the express or practical effect of prohibiting short-term rentals or vacation rentals throughout the jurisdiction of such county or city.”
- Classify short-term rentals as anything other than residential zoning.

However, the language is vague enough that some best practices may still be possible, particularly if they are tied to non-land-use means. Local governments may “implement such reasonable regulations as it deems necessary to safeguard the public health, safety and general welfare in order to protect the integrity of residential neighborhoods in which short-term rentals or vacation rentals operate.”¹⁰⁰

One positive impact of the Act is that it will greatly increase the number of short-term rental hosts that pay taxes. The Law requires short-term rental marketplaces (including hosting sites, property management companies, and any other entities that facilitate transactions between hosts and renters), to register with the

⁹⁸ Legislature of the State of Idaho. (2017). State Statute 67-6539: Limitations On Regulation Of Short-Term Rentals And Vacation Rentals.

⁹⁹ Legislature of the State of Idaho. (2017). House Bill 216: Short-Term Rental and Vacation Rental Act. This bill was passed in April 2017 with the intent to “promote access to short-term rentals and vacation rentals by limiting local governmental authority to prohibit these beneficial property uses, or to specifically target them for regulation,” and to “preserve personal property rights and promote property owner access to platforms for offering their properties as short-term rentals and vacation rentals.”

¹⁰⁰ Legislature of the State of Idaho. (2017). House Bill 216.

Idaho State Tax Commission. These marketplaces must collect, report, and pay all state sales, use, travel, and convention taxes, and all applicable local taxes on behalf of short-term rental hosts. The Act will grow revenue collected through Ketchum’s Local Option Tax—LOT. It is possible this revenue could fund workforce housing in the future, if approved by voters and deemed permissible under Idaho Law.

Restrictions on Homeowners Association Regulations of Short-Term Rentals

Idaho state law also does not allow homeowners’ associations (HOAs) to change the Covenants, Conditions, and Restrictions (CC&Rs) to prevent owners from renting their properties. Idaho State Statute 55-115 “Homeowners’ Association – Prohibited Conduct” was enacted in 2014 and states, “No homeowners’ association may add, amend or enforce any covenant, condition or restriction in such a way that limits or prohibits the rental, for any amount of time, of any property, land or structure thereon within the jurisdiction of the homeowners’ association, unless expressly agreed to in writing at the time of such addition or amendment by the owner of the affected property.”¹⁰¹ In sum, Idaho HOAs have very limited ability to regulate short-term rentals within their jurisdictions.

Limitations of Zoning, and a Lack of Enforcement

Zoning has a long history in the U.S. of separating undesirable land uses, but has fallen short in addressing the negative impacts of short-term rentals. Hotels and residential homes are almost always viewed as incompatible land uses, so hotels are zoned commercially, and houses are zoned residential. Another limitation of zoning is the fact that it is reactive, not proactive. An area can be re-zoned once problem occurs, but does not address issues before they occur.

Zoning can also limit property use, but short-term rentals are challenging because a property can serve a residential use and a tourist/business use at different times of the year. Many cities have long-standing zoning codes that prohibit or limit short-term rentals, but use can be difficult to regulate because it requires constant audits by City staff to ensure the occupants are not short-term renters. It can also be argued that use of a residential property is the same whether the property is occupied by the owner, a long-term renter, or a short-term renter. In either case, the occupant uses the property to eat, sleep, relax, and spend time with friends and family, regardless of how long they plan to stay.

Zoning by itself is insufficient to regulate short-term rentals, although it is a useful tool when combined with other regulatory and economic incentives (some of these options are explored in the *Recommendation* section). Zoning aims to separate incompatible land uses. For example, possessing alcohol does not mean someone can (or should) open a bar in a single-family residential neighborhood. By extension, having a bedroom does not mean they can (or should) open a hotel. Because short-term rental use is closely related to normal owner or long-term rental use, zoning is a less-than-perfect tool to regulate short-term rentals. Cities are also generally unaware of the location of all short-term rentals and do not often act until a short-term rental becomes a party house and causes conflicts with neighbors.

Limitations of Nuisance Law

Nuisance law applies to neighborly conflicts that arise when one neighbor short-term rents their property in a way that negatively affects the neighbors’ enjoyment of their property. A neighbor that lives next to a party house can sue the other neighbor to shut down the party house and potentially receive compensation under nuisance law. Nuisance law is a poor tool to deal with short-term rentals by itself, though, and has a limited role in land-use regulation. First, nuisance law has high transaction costs and comes into play only when one

¹⁰¹ Legislature of the State of Idaho. (2014). State Statute 55-115: Homeowners’ Association – Prohibited Conduct.

neighbor takes another to court. The original neighbor is responsible for lawyer fees, and nuisance cases can be expensive and time-consuming. Second, only one person can go to court even if many neighbors are affected. Third, nuisance law applies after the fact—the nuisance must happen before doing anything to stop it. Lastly, nuisance law is arbitrary and unpredictable. Where zoning and other short-term rental regulations fail, however, nuisance law is an important tool for neighbors to deal with an unruly short-term rental.

Private Property Rights Arguments

Private property rights arguments are also at the center of short-term rental conflicts. A major argument in favor of short-term rentals is the idea that homeowners have the right to use their properties as they please, and the government should not infringe on that right. Private property owners can also take the government to court if they feel government regulations limit their ability to reasonably use or profit from their property. Property owners in cities across the country have challenged short-term rental bans in court. Some bans have been struck down, but others are still in place.

Arguments supporting property owners' ability to rent short-term ignore the neighbors' private property rights. Neighbors have investment-backed expectations just as short-term rental hosts do. They made a real estate investment in a quiet, residential neighborhood far away from any hotels under the assumption that property values would ultimately rise. Proximity to a short-term rental, particularly a 'party house,' can reduce property values, and go against these neighbors' investment-backed expectations.

The private property rights of short-term rental hosts are often elevated over those of their neighbors. Reasons include the inability of cities to keep up with a growing number of short-term rental listings, state laws that favor short-term rental hosts, and short-term rental companies that continue to list properties even when they go against local regulations. These issues are present in Ketchum, particularly since Idaho State Statute 67-6539, which was codified in 2017, limits local regulation of short-term rentals. It will be important to find solutions within the law to short-term rental challenges but also balance the rights of all property owners.

Cities versus Short-Term Rental Hosting Sites

Conflicts between cities and hosting sites are also a challenge. They arise when cities attempt to optimize the positive impacts and minimize potential negative impacts of short-term rentals. Some cities have passed strict bans or placed extreme limits on the number of legal short-term rentals. Others legalized short-term rentals with a permitting and sales tax permit system, while many are somewhere in the middle. Either way, hosting sites want to increase their revenue and protect the privacy of short-term rental hosts. They have little desire to release information or enable cities to pass policies that could reduce the hosting sites' earnings. The most publicized controversies are between large cities, such as San Francisco and New York, and the hosting site Airbnb, although these conflicts occur in smaller cities and with other hosting sites. Time will tell whether these conflicts lessen as the market stabilizes and cities gain experience managing short-term rentals.

The 'Gray Market' for Short-Term Rentals and Vacation Homes

More information is needed to understand the short-term rentals and vacation homes not under professional management—also known as the 'gray market'. These properties are not currently tracked, so there is no way to know how many there are, and when they are occupied. This information would help the City better understand these properties' impacts on Ketchum's economy and infrastructure. Better tracking will also help the City ensure short-term rentals remit the correct sales tax on their earnings.

Recommendations

The City of Ketchum should take three approaches to address housing unaffordability and short-term rental challenges: 1) grow workforce housing; 2) use sales tax permits capture value from short-term rentals; and 3) conduct research on housing needs, incentives, and policies (Table 12).

Table 12: Recommendations to Promote Housing Affordability and Manage Short-Term Rentals

Recommendation 1: Grow the Workforce Housing Supply	
Policy or Program	Problem
Take ownership of workforce housing—political leadership is key. Mountain resort communities with high workforce housing rates housing have strong political leadership. The City should make housing a priority, take the lead on affordability regionally, and bring together existing housing efforts.	Several different actors carry out housing affordability initiatives (the City, Blaine County Housing Authority, ARCH Community Trust, Sun Valley Economic Development, others). These efforts could be better coordinated on a local and regional scale, and would benefit from strong leadership.
Craft a strong housing plan with measurable goals and indicators, and stick with it. A strong housing plan should identify a clear vision, short and long-term goals, targets, indicators, and mechanisms to achieve these goals. It should ensure City housing policies make progress towards the vision.	A lack of unified direction will hinder progress toward Ketchum’s housing goals. Without a strong housing plan, it is difficult to determine where the City wants to go, how it will get there, and how to measure progress.
Make long-term rentals more viable and profitable. One example is Breckenridge's Housing Works program. It matches long-term tenants with landlords, and provides free property management services for short-term rentals that switch back. The program provides landlords with the economic benefits of stable, long-term tenants without much work.	Some long-term rental homes have converted to short-term rentals because of the potential to earn a higher nightly rate, and greater flexibility to use and check on the property. Creating incentives to rent long-term could help slow or reverse this trend, particularly among short-term rental landlords who do not use their property frequently.
Tell a compelling housing narrative to generate support for workforce housing. Use the City email newsletter, the newspaper, community meetings, and other sources to share stories of people who need workforce housing, people who benefited from existing homes, and other positive impacts of new construction (such as additional property tax revenue).	There are many competing narratives about housing affordability in Ketchum. Sharing stories of residents affected by a lack of workforce housing will help the community better understand who needs, and who could benefit from, more workforce homes.
Foster regional coordination to grow workforce housing among city and County governments, businesses, and non-governmental organizations—anyone who has a stake in, and can help solve, workforce housing issues.	Workforce housing scarcity is a problem at the local and regional scale. Coordinated efforts within and across jurisdictions will better tackle the problem than disparate, uncoordinated, and sometimes competing efforts.
Increase the supply of new workforce homes to meet residents' needs throughout their lifecycles. Options include new construction on City-owned land, land-banking, deed-restrictions, new seasonal dormitories and/or 'micro-housing', and exploring potential new funding mechanisms.	The supply of new low- and middle-income housing in Ketchum and the Wood River Valley is low, especially compared to losses in long-term rental housing. A higher build-rate of new homes, plus policies to encourage affordability of existing homes, could be very effective.
Update zoning and regulatory policies to make it easier and cheaper to build affordable homes. Streamline the zoning and building application process, loosen height and other restrictions, to foster high-density housing, and incentivize owners to develop accessory dwellings for long-term renters.	An onerous building application approval process is a barrier to building more affordable and smaller homes. Actions to make the permit application process easier and less time-consuming will signal to the development community that the City is serious about building new workforce housing.
Identify strategic infrastructure investments necessary to develop workforce homes. The City should explore: 1) what is needed to build the infrastructure for new housing development close to Ketchum; and 2) areas within City limits where water, sewer, and other infrastructure, such as off-street parking, could be improved to make affordable, higher-density housing more financially feasible.	The City of Ketchum’s policy is to use fees and other sources of funding for the development of housing within City limits. However, there is a lot of vacant land within and just outside the City’s borders that could support new high-density housing. A lack of infrastructure holds back many new developments.

Recommendation 2: Use Sales Tax Permits to Track, Manage, and Capture Value from Short-Term Rentals	
Policy or Program	Problem
Ensure all short-term rentals acquire and maintain a sales tax permit within one year to 18 months to increase sales tax revenue, and better understand property location, type, size, and owner use patterns. To do this, the City should educate residents, property managers, realtors, and tourism promoters to ensure the requirements and application process are clear.	The number of short-term rentals not under property management (the ‘gray market’) is unknown and tourism data is incomplete. There is no way to know when these properties are occupied, and how frequently. The City also misses out on important sales tax revenue, but the lack of tracking and management means actual losses are unknown.
Contract with a short-term rental software company to track the market and increase sales tax permit compliance. These programs scrape data from national hosting sites to generate daily reports of short-term rental types and locations, estimate sales tax owed by each property, and automatically generate sales tax permit renewal and non-compliance letters.	Short-term rental software is the best way to understanding the short-term market. Most properties are on multiple websites, and few list the address, so it is difficult to identify unique listings. The market also changes daily and seasonally. Staff time to monitor, identify, and compare listings to tax permits is monumental and likely exceeds software costs.
Protect guest health and safety. Sales tax permits should require health and safety features, minimum liability and damage insurance, and identification of security cameras. The City should evaluate whether health and safety inspections are necessary, given resource costs and State law.	Short-term rentals in Ketchum are not held to the same health and safety standards as hotels, although there are few reported health and safety incidents to-date. Standard health and safety feature requirements will help ensure short-term rental guests have a safe and enjoyable stay in Ketchum.
Prevent conflicts between guests and neighbors. Properties should identify a primary contact to address non-emergency complaints within 30 minutes, and post ‘good neighbor’ information about trash, noise, and other policies. The City should set parking and occupancy maximums, require hosts to advertise them, and put them in rental contracts.	Short-term rentals without a primary contact to quickly respond to guest and neighbor needs are more likely involve the police and use City resources when an issue does arise. Primary contacts will save the City money and improve the short-term rental experience for guests and neighbors.
Adopt short-term rental sales tax permit best practices. The sales tax permit application process and requirements should be clear, fees should cover staff and resource costs, penalties for violations should be tough, enforceable and high enough to disincentivize illegal rentals (if allowed by State Law), and the process to revoke a tax permit (and appeal) should be clear.	Clear requirements and procedures will help ensure a higher compliance rate. Some cities have such onerous and confusing short-term rental regulations that owners either never attempt to legalize their short-term rental, or give up in the application process. Ketchum can learn from this example and make sure sales tax permit requirements are clear and straightforward.
Adopt best practices for city staff roles and responsibilities. City staff should have clear roles and responsibilities, and work together with members of other departments as needed.	Clear roles and responsibilities, and cross-departmental collaboration, are needed to manage short-term rentals as efficiently as possible.
Educate State Representatives about the negative impacts of short-term rentals and the problems of State Statute 67-6539. Make the case that short-term rental policies are more effective and efficient than State control, and that these policies will continue to protect private property rights.	Most Idaho State Legislators are from communities with ample affordable housing and low short-term rentals impacts. They may not understand Ketchum’s severe housing unaffordability and availability challenges, as well as the widespread distribution of short-term rentals in residential neighborhoods.
Recommendation 3: Conduct Further Research on Housing Needs and Long-Term Rental Incentives	
Policy or Program	Problem
Conduct a thorough housing needs assessment that explores the dynamic nature of housing in Ketchum and the Wood River Valley. A housing needs assessment will provide the basis for policies that address Ketchum’s housing needs year-round.	Ketchum’s housing supply changes daily and seasonally. New residents move in, others move out, households switch from renting to owning, and seasonal workers generate housing demand. More data is needed about Ketchum’s housing supply to more thoroughly understand community housing needs.
Document stories about what it is like to find a home in Ketchum. Talk to new, long-term, seasonal, and prospective residents to generate support for workforce housing.	Housing unaffordability stories are common, but there is no systematic record of how residents perceive housing.
Research the feasibility of workforce housing policies: Possibilities include: City subsidies, voter-approved housing sales tax, the Local Option Tax to fund workforce housing, and real estate transfer fees negotiated with, but not required for, each development agreement or annexation.	Idaho is a Dillon’s Rule state so municipalities have limited ability to act unless expressly authorized by the State. Cities must tread carefully when policies that might be deemed outside of their authority. Some policies have not been tested in Idaho, and could be viable if implemented correctly.

These policies are presented in detail below. It is important to note that even though vacation homes could have negative impacts on housing affordability and availability, there is not much that the City can (or should) do to regulate them. Idaho is a very pro-property rights state, and tourism (including vacation homeowners and their guests) is the backbone of Ketchum's economy. Recommendations in this report focus on what Ketchum *can do* to promote housing affordability and manage short-term rentals.

Grow the Workforce Housing Supply

A suite of policies is available to grow the supply of affordable rental and for-sale homes for Ketchum's workforce. These policies include: 1) take ownership of workforce housing and provide strong political leadership, 2) craft a strong housing plan and stick with it, 3) make long-term rentals more viable and profitable 4) tell a compelling housing narrative, 5) foster regional coordination, 6) update the zoning and regulatory framework to make it easier and cheaper to build affordable homes, and 7) identify strategic infrastructure investments. The Town of Breckenridge, CO, was presented as a model in the *Current Policy Approaches* section above because it pioneered many of these policies, and has been very successful in growing the workforce housing supply.

Take Ownership of Workforce Housing—Political Leadership Is Key

Mountain resort communities with the most success in bolstering workforce housing took ownership of their housing issues and their town's future. Elected officials and city staff provided strong leadership, and did not waver from this commitment. In these cases, communities decided that they needed to make a change, and elected officials worked with citizens to figure out how to make the change. Without community buy-in and strong leadership, Ketchum is likely to fall short of its housing goals.

Craft A Strong Housing Plan and Stick with It

A key to successfully growing the affordable housing supply is the development of a strong housing plan that clearly identifies a vision, short and long-term goals, targets, indicators, and mechanisms to achieve these goals. The plan needs to identify a clear housing direction, and any city policies or action that relates to housing needs to somehow make progress towards that direction. Conversely, a lack of unified direction will hinder progress toward housing goals.

Make Long-Term Rentals More Viable and Profitable

Policies to make it easier and more lucrative to rent long-term are needed to incentivize short-term rentals to switch to longer-term leases. Tax breaks are one option. A property tax break may be difficult because it would require collaboration with Blaine County and the State Tax Assessor. Landlords do not currently pay sales tax on rentals longer than 30 nights in Ketchum, but this financial incentive is not enough to keep properties from converting to short-term rentals. A more effective incentive may be to provide property tax breaks for properties that offer one-year leases. More research is needed to explore whether this option is viable.

Another option is to take care of long-term rental logistics on behalf of property owners, like Breckenridge's Housing Works program. This option could include free property management services and a tenant-match program so that owners do not have to worry about finding stable, responsible tenants, nor do they have to worry about property management.

Tell a Compelling Housing Narrative

Community buy-in for policies to boost workforce housing is very important. However, buy-in depends on residents' perception of the housing affordability problem, who is affected, and what will happen if there is no change. Providing examples of real people who need workforce housing and/or who have benefited from existing workforce homes could go a long way. One option to generate buy-in is to publish a series of articles on housing in the local newspaper or e-newsletter. These articles should describe specific issues, and what the City is doing to resolve each one (e.g. short-term rentals, deed-restricted housing, building new moderate-income housing, etc.). The City should also publicize the positive impacts of existing affordable ownership homes (e.g. property tax revenue, who has benefitted from workforce housing, etc.).

Foster Regional Coordination to Increase the Affordable Workforce Housing Supply

It is important to understand how Ketchum's housing issues relate to broader Blaine County because workforce housing scarcity and unaffordability is a regional issue. Ketchum's workforce lives inside and outside of the City boundaries, and there are local and regional actors working towards similar workforce housing goals. Cities and counties often have overlapping housing goals, and they are interdependent on each other—what happens in one can affect in another. For these reasons, it is a good idea to leverage regional expertise, actors, and partnerships in pursuit of common goals. The most effective approach to growing the workforce housing supply may be to work with local partners to identify policies and strategic investments that do the most to increase the affordable housing supply, whether these sites are located within or outside of Ketchum city limits. For example, Ketchum could host a housing summit bringing together key players already working on housing, such as the Blaine County Housing Authority, Sun Valley Economic Development, Sun Valley Board of Realtors, ARCH Community Trust, developers, and local businesses.

Increase the Supply of New Workforce Homes

Build a Variety of Homes, at A Variety of Price Points, to Accommodate People throughout Their Lifecycle

Sustainable housing in Ketchum must be diverse in type and price point to meet residents' needs. For example, a young couple in a dual-income household should be able to afford a starter home, while a new resident should be able to find a long-term rental while they search for a more permanent home. If these housing types are not available, low housing diversity will ultimately act as an obstacle to people moving to or staying in Ketchum in the long-term. If people cannot find a place to live, they will move away—either to less expensive communities nearby, or to a different region entirely.

Bank Land and Build Workforce Housing on City-Owned Land

The City should always be ready to increase the affordable housing supply during housing market slumps. One way to do this is to purchase land when prices are low, and save it for workforce housing later when it is more viable to build.

Regularly Build New Affordable, Deed-Restricted Housing

Because affordable housing projects can take several years from planning to construction to occupation, it is important to have new projects built approximately every six months. Once one project gets off the ground, it is important to have another one right behind it if there is any chance of building enough supply to meet demand. New affordable housing should also be deed-restricted to prevent purchase or rental by non-permanent residents and/or to limit whether these properties can be on the short-term rental market. Deed restrictions can be applied to existing owner and rental housing, as well as new construction.

Build Dormitory-Style and/or “Micro-Housing” for Seasonal Workers in Non-Residential Neighborhoods

Ketchum relies heavily on seasonal workers to support tourism in the high seasons in winter and summer. Permanent housing could go a long way to attract and retain quality employees every year. Housing dedicated to seasonal workers will assure they have a place to live the following year without having to dedicate a huge amount of time and resources to finding a seasonal rental. While these homes might not be viewed favorably in single-family residential neighborhoods, they may be suitable in infill areas in tourist zones.

Purchase Older and Smaller Homes to Increase Supply of Deed-Restricted Properties

The City should plan to increase the affordable and moderate-income housing supply when housing prices drop again. There are many older condominium homes (e.g. from the 1970s), that are relatively affordable (under \$300,000) and could be purchased and turned into deed-restricted rental or ownership housing set aside for Ketchum’s workforce.

Explore Diverse Means to Fund Workforce Housing

There are several potential options to generate revenue to build or purchase affordable housing to replace lost homes.

1. Local Option Tax: Revenue could go towards an affordable housing fund to build new homes or purchase old homes and enter them into deed restrictions.
2. Community Housing Fees: Ketchum’s Community Housing Density Bonus already sets aside funds for affordable workforce housing.
3. Luxury housing impact fees: Housing beyond a certain size and/or that is valued beyond a certain price could be required to pay an impact fee towards affordable housing elsewhere.

Update Zoning and Regulatory Policies to Make It Easier and Cheaper to Build Affordable Homes

Streamline the Zoning and Building Application Process

Actions to make the permit application process easier and less time-consuming will signal to the development community that the City is serious about building new workforce housing. Anecdotal evidence suggests an onerous building application approval process is a barrier to building more affordable and smaller homes.

The Sun Valley Economic Development Middle-Income Housing Summit in February 2017 identified zoning and subdivision barriers to moderate-income housing projects. They include height restrictions, the need to change the zoning of specific parcels (e.g. to planned unit development), the creation of additional and/or smaller residential plots, and text amendments to more easily permit infill housing. Some changes are easier to accomplish than others, and some proposed projects are more feasible and/or likely to make a bigger dent in affordable housing issues. The City should evaluate and prioritize these projects, identify barriers to delivery, and determine policies and actions to overcome those barriers.

Incentivize Owners to Develop Accessory Dwelling Homes That Can Be Rented Out Long-Term

Ketchum zoning code prohibits accessory dwelling units (ADUs) from being used as short-term rentals. However, State Statute 67-6539 prohibits the use of zoning to regulate short-term rentals. Another approach may be to incentivize the development of ADUs used as long-term rentals or seasonal housing.

Identify Strategic Infrastructure Investments

The Sun Valley Economic Development Middle-Income Housing Summit in February 2017 identified a lack of water and sewer connections as limitations to new housing. The City of Ketchum’s policy is to use fees and other sources of funding for the development of housing within City limits. The City could also explore what is

needed to build the infrastructure that new housing development close to Ketchum depends upon. Additionally, the City could explore areas within its limits where water, sewer, and other infrastructure, such as off-street parking, could be improved to make affordable, higher-density housing more financially feasible. It is a good idea to identify critical infrastructure investments now so that the City and other entities are ready to act when infrastructure development is feasible.

Manage and Capture Value from Short-Term Rentals

Short-term rentals very likely impact housing affordability and availability for both the long-term rental and for-sale housing pool, but Idaho State Law limits Ketchum's ability to regulate short-term rentals. Ketchum's most promising options to manage short-term rentals are to increase the number of short-term rentals with sales tax permits, and contract with a software management company to generate a detailed and up-to-date understanding of the local short-term market.

Increase the Sales Tax Permit Compliance Rate

The City should aim to have all short-term rentals acquire and maintain a sales tax permit within a specified time frame, such as one year or 18 months. Sales tax permits can help ensure short-term rentals are legal to operate, and that they pay all applicable taxes. They can also help protect guests and owners by requiring health and safety features (and potentially an inspection and approval process), and reduce the potential for conflicts with neighbors by requiring owners to identify a 24/7 primary contact who can arrive within 20 or 30 minutes. They also disincentivize illegal short-term rentals and other violations of sales tax permit requirements through high fees and/or penalties for violations. Finally, regular renewal of sales tax permits (e.g. annually), will enable to the City to stay up-to-date on its short-term rental supply.

Sales tax permits are also critical because the number of short-term rentals not managed by property management companies (also known as the 'gray market') is currently unknown. The City has no way to know when these properties are occupied, and how frequently, so tourism data that relies only on hotel and property management companies is incomplete. Using sales tax permits to track the entire short-term rental market will provide the City with a much better understanding of housing and tourism patterns, and will also indicate whether everyone is paying the Local Option Tax. To grow the number of sales tax permits, the City must make a concerted effort to reach out to residents, property managers, realtors, tourism-promoters, and others, to ensure the sales tax permit requirements and application process are clear.

Hold Educational Workshops Prior to and During the Development of Updated Sales Tax Permit Policies

Ketchum's short-term rental sales tax permit policies are more likely to be successful if the community is behind them. Educational sessions with the public, property management companies, and real estate agents are one way to promote community buy-in because they promote open and transparent dialogue between the City and key stakeholders. Initially, these workshops serve to educate residents about the City's intentions. Once updates to the sales tax permit policies are proposed and enacted, these meetings act as a two-way forum for City officials to explain policy objectives, mechanisms, and intended impacts. They also provide citizens with an opportunity to voice concerns, identify unintended consequences, and suggest changes. These meetings also generate community buy-in, so it is important to widely publicize them and make sure residents know all are welcome. It is good practice to hold multiple meetings (at different times and on different days) and advertise through the City website, email newsletter, social media, local newspaper, and word of mouth.

These meetings also help increase sales tax permit compliance because they explain what law-abiding landlords and tenants need to do to be legal. They provide an opportunity for the City to communicate the fact that short-term rentals without sales tax permit will be found, and penalties will be enforced. During this

time, the City can explain its contract with a short-term rental tracking and management software that automates this process, if the City chooses to go this route.

Target Educational Sessions to Property Management Companies and the Real Estate Industry

Property management companies and real estate agents interact with prospective short-term rental owners and manage existing short-term rentals. These industries must be involved to increase the sales tax permit compliance rate. Educational workshops on sales tax permit requirements, the process to approve, deny and/or revoke a permit, and penalties for non-compliance will help this industry properly communicate these regulations to current and prospective clients. The City can also encourage property management companies to refuse to advertise or manage short-term rentals without a sales tax permit.

Inform Tourists about Regulations and Encourage Rental of Legal Short-Term Rentals

Tourists can support legal short-term rentals by choosing to stay in legal rentals with sales tax permits. Local tourism and property management sites can post information about sales tax permits, encourage tourists to stay in these rentals, and inform them about the negative impacts of unpermitted short-term rentals.

Contract with a Short-Term Rental Software Company to Track the Market and Increase Sales Tax Permit Compliance

Short-term rental software is the most efficient and effective way to generate a detailed and up-to-date understanding of the local short-term market. These software companies provide information about where the short-term rental market has been, where it is now, whether it is shrinking or expanding, and how it changes seasonally. Short-term rental software companies, such as STR Helper, Host Compliance, and Hamari, search multiple websites regularly to identify new short-term rentals and manage existing permits.

STR Helper was developed by some of the same people who developed Garden City's short-term rental policies. The program distills the total number of listings across all national short-term rental hosting sites into the total number of unique properties (most properties are advertised on multiple websites), and maps each property. This program identifies permitted properties, properties in the permit application process, properties whose license is about to expire, and unlicensed short-term rentals. It also estimates sales tax by comparing the average number of rental nights in the area to the property's availability calendar, and automatically generates permit renewal and non-compliance letters. STR Helper provides evidence of non-compliance if needed by the City to penalize non-compliant properties.¹⁰²

It is almost impossible to gather sufficient evidence to enforce non-compliance penalties without the help of short-term rental software. Most short-term rentals are listed on multiple websites, and keeping track of them manually is extremely difficult. In Ketchum, STR Helper found 1,260 listings in February 2017, but only 471 unique properties. To do this manually, City staff would have to look through each short-term rental website and compare all listings to determine which were unique. Because very few properties list the address, and not all short-term rental sites provide a unique property identification number, property pictures are sometimes the only way to manually determine a cross-listed property. Short-term rental tracking, management, and enforcement are extremely time-consuming tasks that greatly exceeds the costs of purchasing a software package. These tasks would require the City to hire additional dedicated staff members in the planning, code compliance, and finance departments, which is much more than the approximately \$5,000 annual STR Helper fee (with an additional \$3,000 start-up fee).

¹⁰² For more information, see <http://strhelper.com>.

Create and Update a Public Map of Short-Term Rentals

Software companies can create a map of all licensed short-term rentals in the City of Ketchum, which can help neighborhoods have a better idea of how short-term rentals affect them. The map can also help neighbors know if an un-permitted short-term rental opens in their neighborhood.

Make a Concerted Effort to Increase Collection of Sales Tax Revenue from Short-Term Rentals

Sales tax permits will help the City capture the economic benefits of short-term rentals. Sales tax revenue from short-term rentals supports infrastructure and other critical community needs through the Local Option Tax (LOT). The City loses valuable sales tax revenue from unlicensed short-term rentals, and does not currently have established procedures to discover and track short term rentals that enter the market. The City also does not have an established procedure to ensure hosts obtain a sales tax permit and pay taxes. The City would receive much additional sales tax revenue to support local transportation, open space acquisition, capital improvements, emergency services, city promotion and special events, property tax relief, and air service.

There may also be an opportunity to use LOT to fund housing, which could be a critical tool to help Ketchum achieve its workforce housing goals. The purpose of the LOT is to support economic development, and housing is an important part of Ketchum's economy. The legality of using LOT revenues for such purpose needs to be explored further. Idaho Code states, "Taxes collected pursuant to any such ordinance...shall constitute revenue of the city available for any lawful corporate purpose approved by city voters subject to the provisions of this act." It also states, "In any election, the ordinance submitted to city voters shall: (a) state and define the specific tax to be approved; (b) state the exact rate of the tax to be assessed; (c) state the exact purpose or purposes for which the revenues derived from the tax shall be used; and (d) state the duration of the tax."¹⁰³ Therefore, LOT revenue may be able to fund workforce housing if Ketchum voters approve it. An increase in short-term rentals sales tax collection is necessary to maximize the economic benefits of short-term rentals, and could help grow the workforce housing supply.

Require Hosts to Maintain a Guest Registry and Require Keep Records for at Least Three Years

A guest sign-in-sheet/registry is essential in case the City needs to audit a property. Online hosting sites are reluctant to provide this information (they usually will not release it without a subpoena). Requiring hosts to keep this information will ensure the City has access to it if needed. Good book-keeping is essential for any business, and short-term rentals are no different. Hotels are required to keep guest records, so it is reasonable to require short-term rental hosts to do the same.

Protect Guest Health and Safety

Require All Short-Term Rentals to Have a Specific Set of Health and Safety Features

Requirements for hosts to install specific health and safety features in addition to regular health and safety inspections are critical to protect the well-being of guests. STR Helper compiled a comprehensive list of health and safety best practices from cities across the country:

1. "Smoke alarms in each bedroom, each adjacent hallway to a bedroom and one on each floor.
2. Carbon monoxide detectors on each floor in the vicinity of the bedrooms ["in the vicinity" would need to be specified, e.g. within 5 or 10 feet].
3. GFCI breakers in bathrooms, kitchen countertops, and for jetted tubs.

¹⁰³ Idaho State Statute. (2017). Title 50: Municipal Corporations, Section 104: Finances. Accessed October 21, 2017 at <https://legislature.search.idaho.gov>.

4. Water heaters must be strapped, have an expansion tank that must also be strapped and have proper venting and gas connections.
5. Furnace must have required clearances and access, correct venting and gas/electrical connection; combustion air must be sufficient, no combustible material in vicinity.
6. Handrails required on any stairs over three risers; all decks and exterior handrails must be stable and secure.
7. Hot tubs must have a power supply disconnect between 5' and 50' away.
8. Tempered glass within 5' of a hot tub.
9. Guardrails must be provided on a raised deck 30" or more above ground.
10. Windows must be tempered in hazardous or wet locations.
11. A fire extinguisher must be provided in each unit.
12. Emergency egress from all bedrooms – must have door to the outside or window with a minimum opening of 5.7 square feet and no more than 44" above floor.
13. Buildings with fire sprinklers require annual inspections.
14. All common area emergency lighting and exit lights must function on back up battery power (Condos).
15. Common area fire extinguisher must be serviced and tagged annually (condos).
16. Zoning regulations and the correct use for the structure.
17. Adequate sanitary facilities.
18. Gas fired appliances are not allowed in sleeping areas.
19. Number of bedrooms and square footage must match what is listed on the application.
20. Circuit breaker boxes must be properly labeled and contained and not hidden or blocked.
21. CPSC pool drain installed/pool-spa maintenance contract
22. Pest inspection
23. Linen sanitation system.¹⁰⁴

This list can be modified to fit Ketchum building, fire, safety, and health codes, but it is a good starting point for key health and safety features to ensure guest welfare.

Consider Whether Regular Health and Safety Inspections Are Needed

Regular health and safety inspections required to obtain and maintain a short-term rental sales tax permit to ensure compliance with local and state building, fire, municipal, and health codes. They are needed if Ketchum is concerned that its short-term rentals are unsafe, unclean, or do not meet building and fire code requirements. Portland, OR is one city that requires safety inspections.

Most, if not all, cities require short-term rental hosts to meet extensive health and safety requirements to receive a sales tax permit. However, some cities, such as the Town of Breckenridge, do not conduct health and safety inspections to ensure properties are safe. Instead, they assume that if the property was safe when it received a certificate of occupancy, it is still safe now.

Require Hosts to Meet Minimum Liability and Damage Insurance Requirements

Minimum liability, damage, and other insurance policies protect the guests and hosts from liability for damage and personal injury. Hosts take on a lot of risk by opening their homes to guests, and are often not well protected. Home insurance policies often do not cover damage or personal injury from commercial activities. Only recently have online hosting sites provided hosts with the option to sign up for additional damage and

¹⁰⁴ Bear Cloud Software. (Date unknown). Short Term Rentals – Best Practices Checklist, p. 2-3. Unpublished.

liability insurance. Hosting sites consider hosts to be contractors and therefore relinquish liability for hosts who come back to damaged or dirty houses, or hosts who face legal trouble if a guest gets hurt in their property. It is likely that many current short-term rental hosts in Ketchum do not have additional insurance and are at risk of financial or legal trouble if guest personal injury or property damage issues occur.

A report on short-term rentals in Los Angeles cited horror stories of hosts returning to damaged and dirty homes with little recourse from their home insurance or Airbnb.¹⁰⁵ Regardless of how frequently these issues occur in Ketchum today, the chance of problems grows with each short-term rental that joins the market. The City can prevent these issues by instituting minimum insurance requirements now.

Require Hosts to Identify Security Camera Locations

Hosts should be required to disclose the location of security cameras to protect guest privacy. Hotels are not allowed to have security cameras inside guest quarters. The same rule should apply to short-term rentals.

Prevent Conflicts between Short-Term Rental Guests and Neighbors

Institute a series of nuisance reduction requirements to minimize conflicts between short-term rental hosts and neighbors. These requirements could go a long way in preventing issues around noise, traffic, parking, trash, large gatherings, and other nuisance issues.

Require Hosts to Identify A 24/7 Primary Contact Who Can Arrive Within 20 or 30 Minutes

For guest safety and to minimize potential conflicts between guests and neighbors, all hosts should identify a primary contact. This person could be the owner, the owner's agent, or property manager, and should be responsible for responding to and addressing non-emergency complaints. This person should be listed on the short-term rental sales tax permit because they automatically enter into a business agreement in their role as primary contact. To clarify roles and responsibilities, the sales tax permit should be very specific about:

- Where this person should live or work (e.g. within the city limits or within a specified distance from the short-term rental)
- What their responsibilities are
- What this person is liable for
- The maximum allowed complaint-response time (e.g. arrive at the property within 30 minutes of receiving a complaint, 24 hours per day, 7 days per week)
- Penalties for failure to respond (fine, license revocation, etc.)

Require Hosts to Post "Good Neighbor" Information Inside Each Property

All hosts should be required to post information inside the property in an easily accessible/noticeable area to ensure guest safety and to minimize the likelihood of conflicts between guests and neighbors, including:

- Noise, trash, parking, and other relevant ordinances
- Primary contact information
- City short-term rental hotline number (if applicable)
- Local law enforcement contact information
- Fire extinguisher
- Gas shut-off
- Fire exits
- Water shut-off
- Alarms
- Parking location and maximum number of vehicles allowed
- Maximum occupancy requirements

¹⁰⁵ Laane. (2015). Airbnb, Rising Rent, and the Housing Crisis in Los Angeles.

Limit Occupancy, and Set Minimum and Maximum Parking Requirements Based on Number of Bedrooms

The City could tie occupancy limits to the number of bedrooms to prevent the incidence of party houses. Each property should also have a minimum and maximum number of parking spaces that correspond with the minimum and maximum number of vehicles allowed to park on the short-term rental premises. These requirements ensure there are sufficient parking spaces for the guests who rent the property, but not so many to encourage large gatherings. Parking minimums and maximums should vary based on number of bedrooms. For example, a 2-bedroom property could have a 2-car minimum, and 3-car maximum.

Require Hosts to Advertise Occupancy and Parking Requirements on all Advertisements

Occupancy and parking requirements on all advertisements (online and paper) lets potential renters know they cannot have big events on that property. This system benefits renters and hosts, because renters can move on to a property that accommodates their needs. Meanwhile, hosts benefit from fewer conflicts with neighbors and City regulators.

Require Properties to Include Important Nuisance Information in their Rental Contracts

All short-term rental contracts should contain the following information to ensure guests are aware of nuisance mitigation measures and requirements:

- Occupancy limits; Exceeding occupancy limits is not allowed
- Parking limits; Exceeding parking limits is not allowed
- Use of the property outside of what is acceptable is not allowed (need to define acceptable use)
- Overview of local noise, trash and parking ordinances
- How the guest is expected to behave with respect to the above (e.g. put the trash inside, not next to, the bin; no outdoor parties after 10pm, etc.)

Set Up Mechanisms to Receive and Address Non-Emergency Complaints

A phone line and/or website for neighbors to report nuisance complaints helps the City identify problem properties quickly and helps resolve conflicts between short-term rentals and their neighbors. A hotline provides a quick response time because the operator contacts the short-term rental primary contact, and only notifies the police if this person cannot quickly resolve the issue (e.g. within ½ hour). A website allows the public to submit complaints at any time, but they are not dealt with quickly. Both mechanisms are useful because they provide a paper trail for ‘nuisance properties’ if needed as evidence in a short-term rental sales tax permit revocation process. The hotline is the best option if nuisance issues are a concern. If not, the website is a better option because it requires less staff time and resources to implement.

Adopt Short-Term Rental Sales Tax Permit Best Practices

Best practices for short-term rental policies greatly increase the chance of success.

Provide Specific Definitions of Important Terms and Processes

It is good practice to define important terms in short-term rental sales tax permit requirements so that the public and lawmakers clearly know what they need to do to comply with regulations. It is also important for law-abiding properties owners to understand each component of the short-term rental sales tax permit application. Otherwise, landlords who want to abide by regulations will be unable to do so, and compliance will be low.

The software company Host Compliance identified several cities, including San Francisco, CA, whose short-term rental regulations are so onerous and confusing that many owners either never attempt to legalize their short-term rental, or give up in the application process.¹⁰⁶ San Francisco's short-term rental permit process requires applicants to meet with a member of the Planning Department in person and then complete a series of steps and paperwork to complete the process. The low short-term rental compliance rate is likely due in part to overly-complicated regulations.

Be Clear About the Process to Submit and Approve (or Deny) a Sales Tax Permit Application

The process to submit, approve and deny a short-term rental application should be clear to Ketchum residents, City staff, and decision makers. There are several processes to choose from.

Require the Short-Term Rental Sales Tax Permit to be Renewed Annually

It is good practice to require sales tax permits to be renewed regularly to ensure the short-term rental follows health and safety protocol, remits sales tax, and that owner information is the same. It also provides cities with a more complete understanding of short-term rental properties.

Make Short-Term Rental Permit Fees Correspond with Tracking and Management Costs

Permit fees should correspond with costs of managing, inspecting, and regulating short-term rentals. These costs generally include staff time and other resources (e.g. software contracts, transportation to building inspections, etc.).

Build in Tough, Enforceable Penalties; Be Prepared to Enforce Penalties When Violations Occur

It is important to define clear penalties for non-compliance that are severe enough to discourage illegal rentals. Upon review of several cities' short-term rental penalties, Host Compliance concluded: "Ideally the fines should be proportionate to the economic gains that potential violators can realize from breaking the rules, and fines should be ratcheted up for repeat violators."¹⁰⁷ Host Compliance also offers some example fee structures for different types of violations:

Increasing fees for advertising an illegal rental

- Violation 1: \$200/day
- Violation 2: \$400/day
- Violation 3: \$650/day
- Violation 4: Suspend or revoke the permit

Increasing fees for violating other short-term rental requirements

- Violation 1: \$250/day
- Violation 2: \$500/day
- Violation 3: \$750/day
- Violation 4: Suspend or revoke the permit

In addition to daily fees for violating short-term rental sales tax permit requirements, it is important to consider other fees and penalties associated with bringing properties into compliance such as:¹⁰⁸

- Short-term rental violators must reimburse City for local government and law enforcement costs associated with investigating the short-term rental violations.
- Violators must pay all short-term rental back-taxes (usually sales tax, but maybe others).
- Violators must pay all illegally-obtained short-term rental revenue to the government.

¹⁰⁶ Binzer, U. (2016). A Practical Guide to Effectively Regulating Short-Term Rentals on the Local Government Level. Accessed March 2017 at <https://hostcompliance.com/resources-gallery/a-practical-guide-to-effectively-regulating-short-term-rentals-on-the-local-government-level>.

¹⁰⁷ Binzer, U. (2016).

¹⁰⁸ Binzer, U. (2016).

- Unpaid fines will accrue interest until they are paid. Interest can begin on the first day the fine is levied, or can begin after a specified period (e.g. 30 days). The fines listed above should be in addition to (not instead of) other criminal and civil penalties that the government may pursue to address short-term rental violations or other public nuisance issues.

Any regulation on the books should be enforced, and sales tax permits should be revoked for non-compliance. Otherwise, illegal short-term rentals and non-compliance issues will continue with impunity.

Identify and Adopt a Formal Process to Suspend or Revoke Sales Tax Permits for Problem Properties; Be Clear About the Process to Appeal

Permitted short-term rental properties that routinely receive nuisance complaints or who otherwise violate short-term rental policies multiple times should know that there is a formal process for revoking their permits. This process should be enforced to provide incentives to reduce the incidence of conflicts with neighbors. There are several options for revoking a permit. They can be adopted individually or together.

- Option 1: Three strikes rule. The City revokes a short-term rental sales tax permit after receiving three *substantiated* complaints in a specific period (e.g. 18 months, 24 months).
- Option 2: Automatic revocation. The City revokes a short-term rental sales tax permit if a law is broken, substantiated by a police report or video evidence.

The process to appeal a revocation should also be clear.

Adopt Best Practices for City Staff Roles and Responsibilities

Well-written regulations can only go so far, and must be effectively put into practice by City staff.

Be Aware of What Short-Term Rental Hosting Companies Will and Will Not Do

The City should not expect short-term rental hosting companies to provide information about properties, beyond the sales tax data now required by Idaho law. Cities and hosting companies often have an antagonistic relationship because hosting sites rarely turnover property data (unless in response to a subpoena), and they usually do not work with cities. In fact, there are several instances where hosting sites actively campaigned or worked against city regulations (including places like San Francisco and New York). An awareness of what data is readily accessible on hosting sites, as well as what hosting sites will and will not do, will help the City craft reasonable, enforceable regulations that are more likely to be successful in achieving policy goals.

Several datasets can be gleaned from short-term rental sites with increasing time, effort, and difficulty:¹⁰⁹

1. **Publicly available/easily accessible data for most short-term rentals:** Interior photos, a description of the listing, and the approximate location of the property—usually within ½ mile.
2. **Data gathered through intense manual labor or short-term rental software programs, and/or cross-checked with other data sources:** Property address, owner, and permit information.
3. **Data that is almost impossible to gather for most properties:** Number of nights rented per month, quarter or year, and the rental revenue per month, quarter or year. A property calendar may be blocked off for maintenance or owner use, in addition to rental nights, so it is almost impossible to tell how often a property is rented, and how much revenue is generated.

¹⁰⁹ Binzer, U. (2016).

Hosting companies will also post local regulations on their sites (Airbnb has a ‘Responsible Hosting’ page, for example), and they will collect sales tax on behalf of local municipalities if the proper local and state legislation is in place. Idaho now has this legislation in place with the passage of the recent short-term rental law.

Send Neighbors within 100 feet Notification of a Pending or Issued Sales Tax Permit

It is common practice for Cities to notify neighbors about a pending short-term rental sales tax permit. The letter should contain information on maximum occupancy and parking requirements, use requirements, primary contact information for the property, and the process for filing a complaint, including a short-term rental nuisance hotline (if applicable) and/or website (if applicable).

Dedicate Specific Staff Members and/or Staff Time to Short-Term Rentals

Specific City staff members should be responsible for short-term rental tracking, management, and compliance tasks. Specific responsibilities should be assigned even if the City chooses to contract with a software management company, since it is important to identify clear roles and responsibilities to reduce overlaps and inefficiencies.

Foster Cross-Departmental Collaboration within the City

Short-term rental tracking, monitoring, licensing, compliance, and revenue collection affect multiple departments, so it is a good idea to organize a cross-department short-term rental team to meet regularly to ensure everyone understands the policies, their roles and responsibilities, and any challenging issues. This is particularly important after regulations are updated. Members could come from planning and development, finance, code enforcement, and public safety.

Work with State Representatives to Understand the Negative Impacts of Short-Term Rentals

Ketchum should educate its elected officials in the Idaho State Legislature about the negative impacts of short-term rentals in Ketchum, as well as the problems of limiting local control. Ketchum should also make a compelling case to the Idaho State Legislature that local short-term rental policies are more effective and efficient than state control, and that these policies will continue to protect private property rights.

Recommended Further Research

There are several policies and actions the City of Ketchum can take now to address affordable housing and short-term rental challenges. However, additional research is needed to help the City develop better policies.

Investigate Incentives to Switch from Short-Term to Seasonal or Long-Term Rentals

Interviews with short-term rental owners and hosts are needed to understand if certain incentives would convince them to rent their property long-term instead of short-term. This information could help identify the type of policies the City could implement to convert some short-term rentals to long-term or seasonal rentals.

Owner Use Rate

Owners that use their properties infrequently could be incentivized to rent long-term. More reliable data is needed on owner use rates before crafting incentives, however. Only half of the short-term rentals on VRBO in fall 2016 provided this information, and there is no source of this information for vacation homes. Most owners probably use their property at least occasionally, but it is unclear whether this is the case for all owners. An in-depth study that includes interviews with property owners could help determine a more accurate owner use-rate, and identify potential owners who could be incentivized to rent long-term.

Economic Incentives to Convert to Long-Term Rentals

Another issue to consider is whether a short-term rental would be willing to accept a lower nightly rate in exchange for longer renter tenure. Depending on how often the home is rented on the short-term market, owners may make much less money with long-term renters than they do with short-term renters. If this is the case, they will have no reason to switch to the long-term rental market without economic incentives.

Flexibility for Short-Term Rental Owners

Renting in the short-term allows owners and managers to check on their property and conduct maintenance frequently. Many owners may not want to give up this assurance to long-term renters, because they cannot visit their property as frequently.

Cooperation Among Property Management Companies

More information about property management companies' willingness to work with the City to incentivize long-term rentals is needed. The policy option to provide property management services, collect rent, and find long-term tenants requires collaboration and coordination with local property management companies willing to work with the City. If no property management companies are willing to do this, this option will not work.

Conduct a Thorough Housing Needs Assessment

A thorough housing needs assessment is essential to understanding Ketchum's complicated—and always changing—housing market. The research presented in this report is a start. However, housing is flexible and moves between categories depending on owner needs. For example, a house may move between use as a permanent residence and short-term rental when the owners are on vacation, or as a vacation home, seasonal rental, and short-term rental according to the vacation homeowners' needs and use patterns. It is also important to understand how demand in Ketchum affects surrounding Wood River Valley cities and vice versa. A thorough housing needs assessment that explores the dynamic nature of housing would be very useful.

Document Stories About What It Is Like to Find a Home in Ketchum

Housing unaffordability narratives are common in Ketchum, but there is no systematic record of how residents perceive housing. Interviews with new, long-term, seasonal, and prospective residents could be very illuminating. These qualitative narratives would complement the mostly quantitative work in this study.

Non-Viable Policies that Are Not Recommended

Unfortunately, cities across the country have implemented impractical or logistically unenforceable policies that do not generate intended results. These policies are separated into two categories: policies that do not work anywhere and should not be implemented, and policies that would be recommended but are not viable in Idaho due to State legislative and judicial law (Table 13).

Table 13: Non-Viable Policies that Are Not Recommended

Policy	Overview	Why It Is Unenforceable, Impractical, or Not Desired in Ketchum	Outcome If Approach is Chosen	Alternative Policies
Status Quo/Do Nothing	Continued non-enforcement of illegal zones and sales tax permits; no effort to regulate short-term rentals or increase sales tax compliance.	This option is not recommended because it would make no progress towards Ketchum’s housing goals or desire to reduce the negative impacts of short-term rentals.	<ul style="list-style-type: none"> • Long-term rentals would convert to short-term rentals. • Short-term rentals would increase in residential zones. • Unsafe short-term rentals would continue. • Nuisance properties would continue to operate unchecked. • Concerns about neighborhood/community character would grow. • Tax revenue would increase only because State Statute 67-6539 requires it. 	Tie health and safety inspections to sales tax permits; use economic and other incentives to encourage short-term rental hosts to switch to long-term or seasonal rentals.
Full or Partial Short-Term Rental Ban	Ban short-term rentals across Ketchum or in specific zones.	<ul style="list-style-type: none"> • Short-term rental bans are illegal under Idaho State Statute 67-6539. Regardless, this policy is not recommended because it is ineffective and logistically impossible to enforce. • Hosting companies would continue to list short-term rentals. • Much staff time/resources would be needed to enforce the ban. • City would lose economic and tourism benefits of short-term rentals. • City would need to construct more hotels to handle tourist accommodation demand. 	<ul style="list-style-type: none"> • No progress would be made to either limit the negative impacts of short-term rentals or protect workforce housing because this policy is logistically impossible to enforce. • The City would get sued and lose because the ban is illegal under State Statute 67-6539. 	Tie health and safety inspections to sales tax permits (if the City can still issue sales tax permits for short-term rentals); use economic and other incentives to encourage short-term rental hosts to switch to long-term or seasonal rentals.
Limits on Number of Rental Nights	Limit the number of nights a property can be rented every month, quarter or year.	<ul style="list-style-type: none"> • Short-term rental bans are illegal under Idaho State Statute 67-6539. • Impossible to tell how many nights a property is rented vs. when it is booked for maintenance or owner use. • To enforce this rule, the City would have to do a regular, formal audit of every property, which is expensive and impractical. 	<ul style="list-style-type: none"> • No progress would be made to either limit the negative impacts of short-term rentals or protect workforce housing because this policy is logistically impossible to enforce. • The City would get sued and lose because rental night limits are illegal under State Statute 67-6539. 	
Hosts Must List Short-Term Rental Sales Tax Permit Number on Ads	Require hosts to list permit number on all print and online advertising.	It may be difficult to follow this rule because some hosting sites may have algorithms to remove permit numbers. Hosting site policies may be changing, so this policy could be viable after all.	<ul style="list-style-type: none"> • No progress would be made to either limit the negative impacts of short-term rentals or protect workforce housing because this policy is logistically impossible to enforce. 	

Policy	Overview	Why It Is Unenforceable, Impractical, or Not Desired in Ketchum	Outcome If Approach is Chosen	Alternative Policies
Only Allow Permanent Residents to Operate Short-Term Rentals	Only issue short-term sales tax permits to properties that claim a homeowner exemption. They are likely to be rented less frequently and have a smaller impact on housing affordability and the surrounding neighborhood.	<ul style="list-style-type: none"> • Short-term rental bans are illegal under Idaho State Statute 67-6539. • This policy discriminates against vacation homeowners and investors who want to operate a short-term rental. • This policy goes against Ketchum’s broader economic interests and would hurt the industries that depend on this market. 	<ul style="list-style-type: none"> • Several groups would sue the City. The City would probably lose given State Statute 67-6539 and other State Statutes that protect individual property rights. 	<ul style="list-style-type: none"> • Explore incentives to make long-term rentals more viable. • Use short-term rental software to gain a better understanding of the short-term rental market. • Create more workforce housing through new construction and deed restrictions on existing homes.
Regulations that Prevent Vacation-Home or Speculative Purchases	Limit property purchases for non-permanent residents to keep properties available for Ketchum’s workforce and keep housing prices affordable.	<ul style="list-style-type: none"> • This policy goes against Idaho’s pro-property rights nature. • It would artificially reduce demand for vacation homes, investment properties. Housing demand is inextricably linked to Ketchum’s tourism-based economy. Policies to limit speculative purchases would reduce the number of visitors to Ketchum. Fewer visitors would have severe negative effects on Ketchum’s economy. 	<ul style="list-style-type: none"> • The short-term rental and real estate community would view this policy as unfair and would sue the City. The City would probably lose because this policy discriminates against vacation homeowners/ investors, and limits individual property rights. 	<ul style="list-style-type: none"> • Proactively plan for housing shortages. • Buy older and smaller properties during housing cycle busts when prices are low. • Enter properties into affordable deed-restrictions that prohibit short-term rentals. • Buy land when prices are low and bank for future deed-restricted workforce housing.
Develop Workforce Housing in Ketchum Only	Promote the development of workforce housing only in the Ketchum city limits, instead of taking a county-wide approach.	<ul style="list-style-type: none"> • Ketchum’s lack of vacant land, coupled with high land and construction prices, make it difficult to build workforce housing within the City limits. • There are several opportunities to develop workforce housing just outside the City limits. Many of these projects require infrastructure and other investments to be viable. 	<ul style="list-style-type: none"> • Very little new workforce housing would be built in the City or in the surrounding area. 	<ul style="list-style-type: none"> • Develop workforce housing inside and outside the City limits. • Work with local partners to identify strategic sites inside AND outside the City limits that do the most to increase workforce housing in the area.

Unfortunately, the new Idaho State law on short-term rentals limits local municipalities’ ability to implement short-term rental best practices that have proven effective in other mountain resort communities (Table 14).

Table 14: Best Practices that Are No Longer Viable Due to State Statute 67-6539, “Limitations On Regulation Of Short-Term Rentals And Vacation Rentals”

Policy	Overview	Policy Goal	Why It Is Not Viable	Alternative Policies
<p>Tiered Short-Term Rental Permit System to Achieve Specific Policy Goals</p> <p>Crested Butte, CO requires stricter and more expensive permits for short-term rentals located in residential and other less desirable areas.</p>	<ul style="list-style-type: none"> Charge different fees and/or have different requirements for different types of short-term rentals. Tie higher fees/requirements to properties most likely to have a negative impact on the surrounding neighborhood or on housing unaffordability, or properties most likely to earn a large profit. Fee options: <ul style="list-style-type: none"> By property type (single-family home, condo/townhome, accessory dwelling unit, etc.) By location (residential vs. tourist). By affordability (e.g. properties most likely to be affordable to local renters - older and smaller condos and townhomes). By owner’s residency status (properties claiming a Homeowner Exemption or not). 	<p>Tiered structure would depend on Ketchum’s policy goals. Some options include:</p> <ul style="list-style-type: none"> Disincentivize short-term rentals in areas where they have the most undesirable impacts Disincentivize use of properties more likely to be affordable to permanent residents as short-term rentals. Differentiate between permanent residents, seasonal residents, and full-time investment properties. Lower restrictions for permanent residents who rent their properties short-term to earn extra income (have fewer negative impacts); highest restrictions for full-time short-term rentals (investment properties). 	<p>Idaho State Statute 67-6539 no longer allows Idaho cities to regulate short-term rentals with permits.</p>	<p>If Idaho Law permits it, some of these policy goals may be achievable through a sales tax permit. Permanent residents could have a lower fee than seasonal residents or investors because their property will not likely be rented as frequently. Could also charge higher fees for single-family homes in residential neighborhoods.</p>
<p>Short-Term Rental Permit Quota System</p> <p>Durango, CO issues non-transferable permits, and limits concentration by zone (total number and by block).</p>	<ul style="list-style-type: none"> Limit the number of short-term rental permits available in each neighborhood or block. Permits are non-transferable (when owner sells property, permit does not automatically transfer to new owner). 	<ul style="list-style-type: none"> Reduce concentration of short-term rentals in residential neighborhoods. Protect workforce housing for permanent residents. If quotas limit the use of smaller, older, and more affordable condos and townhomes as short-term rentals, they could increase the supply of long-term rentals. Protect the character of residential neighborhoods, if quotas limit the number of short-term rentals there. 	<ul style="list-style-type: none"> A permit quota system is illegal in Idaho under Idaho State Statute 67-6539. Quotas lock in property use: they limit owner flexibility as they progress through their lifecycle. 	<p>Some of these policy goals may be achievable through economic disincentives to rent short-term, and incentives to rent long-term.</p>
<p>Zone short-term rentals as commercial</p>	<ul style="list-style-type: none"> Zone full-time short-term rentals as commercial. Hold properties to commercial same health, safety, use, and other regulations. Keep full-time short-term rentals out of residential and other zones that prohibit commercial use. 	<p>Use financial and logistical disincentives to increase the barriers to entry into the short-term rental market to encourage hosts to carefully consider if they want to operate a short-term rental or not.</p>	<ul style="list-style-type: none"> Not legal in Idaho under Idaho State Statute 67-6539 (requires all short-term rentals to be zoned residential. Ban by zone is very hard to enforce. 	<p>May be able to zone full-time short-term rentals owned as <i>residential: short-term rental</i> and achieve similar results. Charge higher sewer linkage fees for these properties because they have a larger impact on local infrastructure.</p>

Conclusions

Ketchum has a housing affordability crisis. Renters and owners spend more than what they can afford on housing, and are forced to choose between paying for housing and covering transportation, healthcare, food, education, and other costs. Expensive housing threatens Ketchum's long-term sustainability. If young people, families, and other households cannot find affordable housing, they will leave.

Housing unaffordability—particularly in the for-sale market—dates to at least 1970, when owner-occupied housing began to drop as a share of all homes. In contrast, the share of vacation homes grew (properties used occasionally by residents with a permanent address outside of Ketchum), reaching 50% of all homes by 2015. Since 1970, high demand for residential ownership properties has raised home values far beyond the median income, and the median for-sale single-family home price is beyond the means of median-income families. The few affordable for-sale condos and townhomes are often too small for families that need more space or prefer a single-family home.

Ketchum renters have not fared much better. Increases in median rent are about on par with income, but the share of renter-occupied and vacant for-rent homes has dropped since 1970. Since 2012, advertised rents have increased quickly while long-term rental listings have dropped dramatically. New Ketchum renters pay the highest rental housing costs in the region, and they have few options to choose from. Prices across the Wood River Valley have also increased, and availability has decreased. Renters who cannot find what they need in Ketchum have limited options in the region. At the same time, the market for short-term rentals (properties rented for fewer than 30 days, usually by tourists) has experienced tremendous growth.

There are several probable causes of housing unaffordability in Ketchum and regionally. Vacation homes and short-term rentals are one likely cause because they grow demand for residential properties, and remove properties from the residential market. Housing is fixed in the short-term (it takes a long time to build new homes), so permanent residents compete for fewer homes and pay higher prices. Many vacation homes and short-term rentals are also smaller, older, and more affordable condos and townhomes. These properties are an attractive and viable option for purchase by the workforce as a permanent residence, or as an investment rental property for long term rentals, but also as vacation home or investment property for short term rentals. Short-term rentals in Ketchum often nightly charge rates that are 5, 10 or more times higher than long-term rental prices. As such, the lucrative nature of the short-term rental market, coupled with the flexibility it provides for owners to use their properties, incentivizes homeowners and landlords to rent short-term.

The unique social, economic, and environmental dynamics of the Wood River Valley also limit new housing construction and contribute to housing unaffordability. These dynamics include pressures to preserve open space, a “not in my back yard” sentiment, limitations on existing infrastructure capacity, and high construction and land costs. Fluctuations in the economy and housing market also impact housing affordability and determine the prices the housing market can bear. Further, some long-term rental losses are likely due to property owners selling their properties to recoup an investment made prior to the Great Recession.

Ketchum's housing policies have not fully addressed unaffordability for several reasons. Workforce housing policies were enacted in 1994, but they are primarily tied to market rate development in commercial zoning districts and are dependent on free market activity. The City's policies to manage short-term rentals were also not historically enforced due to a lack of understanding about the potential relationships between short- and long-term rentals. Online rental platforms such as Vacation Rental By Owner and Airbnb have also facilitated a sharp rise in the total number of short-term rentals in Ketchum in a very brief period of time.

The City can implement several policies to make Ketchum a more affordable place to live. However, Idaho's conservative legislative, judicial and regulatory environment mean some policies not viable. Idaho State Statute 67-6539, "Limitations On Regulation Of Short-Term Rentals And Vacation Rentals" prohibits most local regulation of short-term rentals, except to protect guest health and safety. Short-term rentals and vacation homes are also important to Ketchum's tourism-based economy. About 19% of Ketchum's workers depend on these markets, while both generate tax revenue. The City must balance the need to grow the workforce housing supply with Ketchum's economic needs.

Recommendations to Grow the Affordable Workforce Housing Supply

1. Take ownership of workforce housing, craft and implement a strong housing plan, and tell a compelling housing narrative to generate community support—political leadership is key.
2. Make long-term rentals more viable and profitable.
3. Grow the workforce housing supply on a local and regional basis: build and purchase deed-restricted workforce homes, build dormitory-style or 'micro-unit' housing for seasonal workers in non-residential neighborhoods, and build a variety of rental and ownership homes at a diversity of price points to meet Ketchum residents' housing needs throughout their lifecycle.
4. Foster regional coordination to grow workforce housing.
5. Update zoning and regulatory policies: make it easier and cheaper to build smaller, affordable homes.
6. Identify and come up with a plan to address strategic sewer, water, and other infrastructure gaps that currently hold back workforce housing investments.

Recommendations to Use Sales Tax Permits to Track, Manage, and Capture Value from Short-Term Rentals

1. Increase sales tax permits to manage, track, and collect tax from short-term rentals.
2. Contract with a short-term rental software company to track the market and increase permit rates.
3. Protect guest health and safety by including requirements to install specific safety features, undergo building inspections, maintain a guest registry, and meet minimum insurance requirements.
4. Prevent conflicts between guests and neighbors: set up a complaint hotline, institute occupancy and parking limits, and require hosts to include them in rental advertisements and contracts; require hosts to identify a 24/7 primary contact and post 'good neighbor' information inside their property.
5. Adopt best practices for City staff responsibilities in the management and tracking of sales tax permits.
6. Educate state elected officials on short-term rental impacts and problems with limiting local control.

Recommendations for Future Research

1. Conduct a thorough housing needs assessment.
2. Investigate incentives to switch from short-term to seasonal or long-term rentals.
3. Document stories about what it is like to find a home in Ketchum.
4. Investigate the viability of select workforce housing policies in Idaho.

These actions are important first steps in addressing Ketchum's severe housing affordability issues. Ketchum must come together as a community to tackle the drivers of housing unaffordability before it is too late. Serious action is needed to change course and provide a variety of housing types at a variety of price to help families, young workers, and others get established. Without a policy intervention, Ketchum will continue to lose the families and young workers it needs to carry through to the next generation.