

# Economic Impact Statement

Montgomery County, Maryland

## Bill 22-23

## Transient Lodging Facilities – Short-Term Residential Rental

### SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 22-23 would have a neutral impact on economic conditions in the County in terms of the Council’s priority indicators. As discussed below the Bill likely would increase operating costs and decrease revenues for certain homeowners who operate short-term residential rentals or a bed and breakfast, and increase rents to certain residents who use these facilities. However, OLO anticipates several factors to mitigate these negative impacts. For one, the Bill would negatively impact only a small percentage of all homeowners in the sector, and its negative impact on resident customers would be small on a per customer basis. Moreover, costs to County businesses and residents would be mitigated by homeowners passing on a portion of the higher costs to non-resident customers. Finally, it is worth noting that enhanced enforcement could prevent certain Homeowner Associations from banning short-term residential rentals, which would decrease the market.

### BACKGROUND AND PURPOSE OF BILL 22-23

By County law, a “bed and breakfast” is defined as a detached house that is owner-occupied with no more than five guest rooms for rent and customarily serves breakfast to guests. A “short-term residential rental” is defined as the residential occupancy of a dwelling unit for a fee for less than 30 consecutive days.<sup>1</sup> Rental arrangements such as these have increased with the growing popularity of online platforms such as Airbnb and Vrbo.

The purpose of Bill 22-23 is to update the law governing bed and breakfast and short-term residential rentals in the County. The proposed changes incorporate recommendations made by the Office of the County Attorney (OCA), the Department of Health and Human Services (DHHS), and the Department of Housing and Community Affairs (DHCA) to address enforcement difficulties since the law was adopted in 2017. If enacted, Bill 22-23 would:

- Assign enforcement responsibility for bed and breakfast and short-term residential rentals to DHCA;
- Increase the maximum penalty for a violation of bed and breakfast and short-term residential rental laws;
- Clarify and update certain provisions regarding the application for a bed and breakfast or short-term residential rental license; and
- Clarify various processes for bed and breakfast and short-term residential rental licenses, including processes for challenging an application for a license, suspending or revoking a license, and appealing the decision on a license to the Board of Appeals.<sup>2</sup>

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<sup>1</sup> Montgomery County Code, [Sec. 54-1](#).

<sup>2</sup> [Introduction Staff Report for Bill 22-23](#).

Bill 22-23 was introduced along with Zoning Text Amendment (ZTA) 23-04, which amends certain requirements related to the number of rental days and property ownership. Bill 22-23, Transient Lodging Facilities – Short-Term Residential Rental, was introduced by the Council President on behalf of the County Executive on April 18, 2023.

## INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 22-23 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.<sup>3</sup>

To examine the Bill's impacts on the Council's priority indicators, OLO performs a qualitative assessment based on the following sources of information:

- Correspondence with County personnel from DHHS, DPS, and OCA; and
- County webpages on Short-Term Residential Rentals and Bed and Breakfasts.

## VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 22-23 are the following:

- Total number of license revocations or suspensions;
- Total number of licenses issued;
- Average rents; and
- Percentage of resident customers.

## IMPACTS

**WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS**

### Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 22-23 would have a small negative impact on certain private organizations in the County in terms of the Council's priority economic indicators.

The primary businesses impacted by the Bill would be homeowners who operate short-term residential rentals or bed and breakfasts. According to personnel from DHHS, there are currently 1,158 advertised short-term residential rentals, 153 of which are licensed with the County. Currently, there are three licensed bed and breakfast facilities.

By strengthening the County's powers to revoke and suspend licenses and increasing penalties for violating laws and regulations regarding short-term residential rentals and bed and breakfasts, certain homeowners would be negatively impacted in terms of operating costs and business income. Higher penalties would increase operating expenses and

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<sup>3</sup> Montgomery County Code, [Sec. 2-81B](#).

revoked or suspended licenses would reduce business revenue for affected homeowners. Holding all else equal, affected homeowners would experience net losses in business income. However, certain homeowners likely would pass on a portion of these costs to their customers in the form of higher rents, thereby mitigating these negative impacts.

Moreover, OLO expects a small percentage of homeowners to be impacted by these policy changes. Enforcement of applicable laws and regulations is complaint-driven. According to DHHS and DPS personnel, only a minority of short-term residential rentals receive complaints to the County.

The Bill may increase operating costs for certain homeowners in two other ways. By requiring businesses to maintain a permanent register, certain businesses may experience minor operating expenses associated with updating their bookkeeping systems. In addition, DHCA may increase the share of short-term residential rentals or bed and breakfasts that are licensed with the County. Homeowners who otherwise would not attain a license in the absence of the policy change would pay an annual licensing fee of \$150. Again, certain homeowners likely would pass on a portion of increased costs to their customers in the form of higher rents.

Beyond these potential impacts, OLO does not expect the Bill to affect private organizations in terms of the Council's other priority economic indicators.

## **Residents**

OLO anticipates that enacting Bill 22-23 would have a small negative impact on certain residents in the County in terms of the Council's priority economic indicators. For one, all short-term residential rentals and bed and breakfasts must be the primary residence of owners. Therefore, any homeowners negatively affected by the policy changes as described above would be residents. Holding all else equal, increased operating costs or forgone revenue would reduce their household income. Second, certain homeowners likely would pass on increased costs to customers in the form of higher rents, a portion of which likely would be residents. Holding all else equal, these residents would experience a minor decrease in discretionary income.

Beyond these potential impacts, OLO does not expect the Bill to affect residents in terms of the Council's other priority economic indicators.

## **Net Impact**

OLO anticipates that enacting Bill 22-23 would have a neutral impact on overall economic conditions in the County in terms of the Council's priority economic indicators. As described above, the Bill likely would increase operating costs and decrease revenues for certain homeowners who operate short-term residential rentals or bed and breakfast, and increase rents to certain residents who use these facilities. However, OLO anticipates several factors to mitigate these negative impacts. For one, the Bill would negatively impact only a small percentage of all homeowners in the sector, and its negative impact on resident customers would be small on a per customer basis. Moreover, costs to County businesses and residents would be mitigated by homeowners passing on a portion of the higher costs to non-resident customers. Finally, it is worth noting that enhanced enforcement could prevent certain Homeowner Associations from banning short-term residential rentals, which would decrease the market.

## DISCUSSION ITEMS

Not applicable

## WORKS CITED

Montgomery County Code. [Sec. 2-81B, Economic Impact Statements](#).

Montgomery County Council. [Introduction Staff Report for Bill 22-23, Transient Lodging Facilities – Short-Term Residential Rental](#). Introduced on April 18, 2023.

## CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

## AUTHOR

Stephen Roblin (OLO) prepared this report.