# Economic Impact Statement

## Montgomery County, Maryland

# Bill 6-23 Housing – Sharing Economy Rental

## SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 6-23 would have a net negative impact on economic conditions in the County in terms of the Council's priority indicators. By establishing a regulatory framework for Sharing Economy (SE) markets in the County that are currently active, the change in law likely would increase operating costs and reduce business income for certain property owners who participate in these markets and comply with the regulations. Moreover, certain property owners likely would pass on some portion of these costs onto resident customers, thereby reducing their net discretionary income.

## BACKGROUND AND PURPOSE OF BILL 6-23

SE has many definitions and remains contested. Nevertheless, SE is commonly understood as an economic model based on the exchange of underused goods or services, for a fee or for free, between individuals and entities, typically by means of the Internet.[1] Well-known SE platforms include Airbnb and Uber.

Bill 6-23 is intended to address SE activity in the County, specifically constituents renting their private property on an hourly basis through online platforms. Under current law, this commercial activity is not allowed in the County. The goal of the Bill is to authorize and regulate the hourly rental of private property by establishing a regulatory framework for license applications, renewals, suspension, and revocation for these rentals. Bill 6-23 proposes the following changes to County law:

- Defining the scope of law to Sharing Economy Rental—that is, "the rental of any portion of a dwelling or the property on which it sits for a fee where both property and the dwelling are privately-owned by the same person or entity and where the rental period is less than 12 continuous hours;"
- Requiring persons to attain a license issued by the Department of Health and Human Services (DHHS) to operate a Sharing Economy Rental;
- Establishing the certifications required for license applications and renewals by applicants;
- Establishing the fee, inspection, and other conditions the County must meet to approve and renew licenses; and
- Outlining the conditions and processes for (a) a challenge to any required certification, (b) any license suspension, revocation, or appeal, and (c) investigating complaints.[2]

Bill 6-23, Housing – Sharing Economy Rental, was introduced by the Council on January 31, 2023 with companion Zoning Text Amendment (ZTA) 23-01, Accessory Residential Uses – Sharing Economy Rental.

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[1] Haqqani, et al, "Sharing Economy: A Systematic Review."
[2] Introduction Staff Report for Bill 6-23.

## 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 6-23 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.[3]

In this analysis, OLO assesses the Bill's economic impacts on two stakeholder groups:

- owners of private property who rent out their properties on an hourly basis through online platforms; and
- residents who rent these properties.

OLO performs a qualitative assessment of the Bill to determine the economic impact of its specific provisions on these two stakeholder groups.

Importantly, although not authorized under County law, certain local SE markets that Bill 6-23 would attempt to regulate are currently active markets.[4,5] For this reason, this analysis assesses the economic impacts of establishing a regulatory framework for certain SE markets vis-à-vis an unregulated market that is currently active, as opposed to the absence of a market.

## VARIABLES

The primary variables that would affect the economic impacts of Bill 6-23 are the following:

- percentage of property owners who comply with regulations;
- magnitude of the negative operating cost and business income effects on affected property owners; and
- rate at which property owners pass these costs onto 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 Bill 6-23 would have an overall negative impact on certain private organizations in the County in terms of the Council's priority economic indicators.

Several provisions of the Bill likely would increase operating costs for certain owners of private property who rent out their properties and comply with County regulations. Property owners would be required to attain a license issued by the County and renew it every year. They would be charged an annual licensing fee, the amount of which would be established

[3] Montgomery County Code, Sec. 2-81B.

[4] For instance, certain County property owners rent their swimming pools through the online platform, Swimply.

[5] Correspondence with Council attorney, Livhu Ndou.

by Executive regulation under method (3) of Section 2A-15. Holding all else equal, annual licensing fees would increase operating costs for property owners who would comply the licensing requirement. In addition, certain certification requirements for licenses may increase operating costs. These include posting rules and regulations at the property, maintaining a record of all rentals, maintaining sanitation facilities, and notifying various third parties (e.g., neighbors, homeowner association, municipality).

The Bill also may reduce business income for certain property owners who comply with the regulations. Property owners whose licenses would be denied, suspended, or revoked would forgo business income from renting out their properties. In addition, to attain or renew a license, property owners must certify that (i) the total number of guests in any rental period who are 18+ years old is no more than six, (ii) the total number of days with rentals per year is no more than 120; and (iii) rentals will only occur between 8am and 10pm. The restrictions on the number of guests and operational days/hours could prevent certain property owners from meeting demand in the market and/or reducing demand for the properties among individuals.

While County regulations likely would negatively impact operating costs and business income for some property owners, there may be certain property owners who benefit economically from the regulations. For instance, there may be cases in which property owners who would be prevented from renting their properties due to third party obstruction in the absence of having a license.

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

## Residents

OLO anticipates that the Bill would have a negative impact on certain residents in the County in terms of the Council's priority economic indicators. Property owners who would comply with the regulations and experience increased operating costs and/or lower business income likely would pass on some portion of the costs/forgone income to customers in the form of higher rental rates. Holding all else equal, residents who pay higher rates than they otherwise would in the absence of the Bill would experience a net decrease in discretionary income.

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

## Net Impact

OLO anticipates that Bill 6-23 would have a net negative impact on economic conditions in the County in terms of the Council's priority economic indicators. This conclusion is based on various ways the Bill may increase operating costs and reduce business income for property owners who comply with County regulations. However, OLO is unable to estimate the magnitude of this impact. The factors that likely would affect the magnitude include: the percentage of property owners who comply with regulations; the magnitude of the negative operating cost and business income effects on affected property owners; and the rate at which property owners pass these costs onto resident customers.

# DISCUSSION ITEMS

Given the Bill would attempt to regulate certain currently active SE markets, Councilmembers may want to consider how the County would induce compliance among property owners who would be negatively impacted by the regulations.

# WORKS CITED

Haqqani, Ahmed Abdul Hadi, Adel Elomri, and Laoucine Kerbache. "Sharing Economy: A Systematic Review of Definitions, Drivers, Applications, Industry Status and Business Models." IFAC. June 2022.

Introduction Staff Report for Bill 6-23, Housing – Sharing Economy Rental, Introduced January 31, 2023.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

# 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.

# AUTHORS

Stephen Roblin (OLO) prepared this report.