INDUSTRY IMPACTS:
SHORT TERM RENTAL PROPERTIES IN SHERIDAN COUNTY, WY

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Sheridan
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I'm often asked for my opinion on the impact of short-term rentals on the local travel and tourism economy and how the proliferation of "Air BnBs" affects hotels, local businesses, and affordable housing – or the lack thereof – across Sheridan County. The truth of the matter is that this is a complex issue influenced by a number of factors – some obvious and others not as clear.

Since before the pandemic I've heard people say things like "Air BnBs are taking over the rental market," and that the government should "step in to regulate short-term rentals." It makes perfect sense to suggest that we don't want a small number of affluent individuals buying up numerous "affordable" properties and using them only for short-term rentals. This can negatively impact the vitality of neighborhoods, eliminate workforce housing inventory, and more.

Back in 2018 there were +/- 35 short-term rental properties in the County; in June of this year, we hit a peak of 222 active listings (per AirDNA). Was the difference of 187 properties subtracted from the long-term rental inventory –what we would typically consider affordable rentals that could be used as workforce housing? Were these brand-new, purpose-built properties? Were they rooms rented out by new homeowners struggling to make ends meet?

It's also worth noting where these properties are located and the increase in their numbers over the last three years:

82801 (City of Sheridan)	**2020**	**2023**
# of properties	59	153
Occupancy		59%
Avg. Daily Rate		$178
82839 (Ranchester)	**2020**	**2023**
# of properties	4	7
Occupancy		45%
Avg. Daily Rate		$136
82836 (Dayton)	**2020**	**2023**
# of properties	10	20
Occupancy		47%
Avg. Daily Rate		$200.5
82833 (Big Horn)	**2020**	**2023**
# of properties	5	9
Occupancy		74%

Avg. Daily Rate		\$419
82842 (Story)	**2020**	**2023**
# of properties	17	33
Occupancy		58%
Avg. Daily Rate		\$146

A quick canvass of Realtor, Zillow, Trulia, and Rentals.com list between nine and 21 traditional rental properties available today, but these sites don't often aggregate everything available in the community.

To understand more about the rise of short-term rentals means stepping back and considering the housing market as a whole. First off, the average home price in November 2018 was \$280,242. Today that number is \$416,598 (with the median at \$358,750). We know that the housing market in the west began to spike in mid-2020 and only began to "cool" in June of 2023. Census data shows that median gross rent between 2017 and 2021 was \$868, while today the median rent for a two-bedroom property is \$1,475. Housing costs have gone up at alarming rates in Sheridan County and across Wyoming, coinciding with mass relocations from urban cities to the rural west that was sparked during the pandemic (Reportedly, Sheridan County's population increased by 3.8% between April 1, 2020 and July 1, 2022, and there were 346 building permits filed in 2022). For anyone keeping score, the Census reported 15,477 housing units on July 1, 2022, while the owner-occupied rate was 68.6% between 2017-2021 (why this data point isn't from 2022 is a good question for the Census Bureau).

So, should the government step in and levy restrictions on short-term rentals, as they seem to be increasing at a rate that outpaces population growth? Should a value threshold be applied? For example, should we only allow short-term rentals in homes that exceed a certain assessed value, so that lower-priced homes remain owner-occupied? Would these restrictions have any effect at all when we consider that short-term rental properties make up less than 1% of the County's total housing inventory?

I think we have to keep digging into the numbers.

Looking again at what's currently on the market, I see that there are 68 rental properties for sale in the AirDNA portal. These range from a 1 bed 1 bath for \$170,000 to a 4 bed 5 bath for \$5,800,000. The average asking price across all 68 properties is \$739,379, while the median price is \$557,166. In total, 20 of the 68 properties are listed at or below \$416,598, the average sale price in the County, while 14 are listed at or below the median price of \$358,750.

Is a \$358,750 home or \$1,475 in monthly rent "affordable?" If we could say that wages skyrocketed at the same rate as housing costs, then maybe. But in reality, we all know that wages have not kept pace with the cost of housing (or even inflation!), especially when we factor in interest rates that have not been seen in the US since the 1980s. For reference, the US Census suggests that the median household income in Sheridan County was \$62,531 between

2017-2021; when you plug that into any number of free-to-use mortgage affordability calculators online you'll be told that an "affordable" house is in the $195,000 range with a $20,000 down payment. Who wants to bet that that $62,531 has not increased at the same rate as housing prices?

Let's look at some additional data concerning the rental market.

From an investment property perspective, long-term rentals have long been considered low-risk, medium-reward; renters help pay down the mortgage while the true value rests in the appreciation of the property itself. Say you have a completely average property that you paid $416,598 for earlier this year. You put 10% down and have a monthly mortgage payment of $2,759 with an interest rate of 8.031% on a 30-year loan. Your property generates an average of $1,475 per month in rental income for a total of $17,700 per year. You are left to cover $15,408 each year, which you hope is outpaced by appreciation in the value of the home.

In comparison, short-term rentals have long been considered a risky bet, but how risky are they at the moment? The average daily rate across all current short-term rental listings in Sheridan is $177 for the last 12 months, an increase of 14% from a year ago. The occupancy rate is 59%, and the average annual revenue is $38,200. But if we are looking at averages only, that $38,200 per year in revenue will comfortably cover the mortgage costs of the $416,598 home you purchased.

Who stays in a short-term rental, anyway? Visitors, of course. Tourists fill up our hotels and our vacation rentals when they come for events like the WYO Rodeo, Big Horn Soccer Cup, Bighorn Trail Run, etc. and they spend their money in our community. Hunters use them in the fall. Polo players and their families use them during polo season. Tourism is Wyoming's second-largest industry, and in Sheridan County alone it generates more than $157 million dollars for the local economy.

But we also know that people utilize short term rentals when they're building a new home or relocating from someplace else. Businesses use them for temporary staff housing. Traveling nurses, construction workers, teachers, seasonal staff in a variety of industries and many others stay in short-term rentals each year. There are so many factors that impact the housing market, and we have not even touched on the influx of retirees or the rise of the remote worker (and the impact they've had on the economy and housing market).

If short-term rentals had decimated hotel business in our community over the last several years then we might look at them as the symptom of a larger problem, but that does not seem to be the case. Hotel occupancy and average daily rates have risen across our region, mirroring the demand for western experiences. Now, can we say that the increase in short-term rental properties has stifled development of new hotel properties, or at least discouraged developers from building new hotels? Possibly. But it's just as likely that the absurd cost of building materials has had an even larger impact.

It is also worth noting that people have rented out their “spare” rooms as a way to help pay down their mortgages on their primary residences for generations; it’s difficult to criticize a first-time home buyer for relying on short-term vacation renters to help cover costs. We should also remember that many families rent out their primary residences when they go on vacation or when there’s major demand, like during the WYO Rodeo. It is critically important that these homeowners are not inadvertently penalized if restrictions on the rental industry are implemented.

It’s clear that short-term rentals and the rise of online booking platforms have impacted how people travel and how we view home ownership in general, but what this issue often boils down to is one of supply and demand; Wyoming and the American West have become wildly popular since the pandemic, and there has not been enough housing inventory to meet the demand. Yes, the housing market has cooled somewhat over the last year, but there’s a big difference between cooling and retracting: to make a positive impact on affordability we need to take a hard look at zoning and density, permitting policies, property taxes, and other flashpoint issues. We’ve heard this time and again, and the County, local municipalities, and private businesses are now armed with the results of a housing study that clearly outlines how the lack of inventory has caused prices to skyrocket. We should absolutely keep our eye on the short-term rental market, because it is one component of a much larger issue.