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September, 2023

What Steamboat’s New Overlay Zones Have Done to Property Values

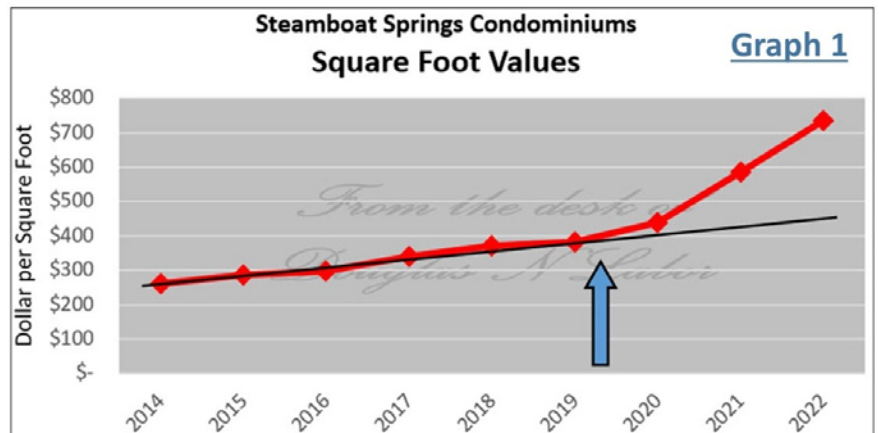
With the recent reduction in the number of Steamboat Springs’ short-term rental (STR) properties over the past year, I thought it would be interesting to see if property values changed as well. The reduction became real when the City implemented Overlay Zones for areas where STR’s are permitted (Green Zone), are prohibited (Red Zone) and transitional areas where special exemptions may be granted (Yellow Zone).

To embark on this study, a few parameters had to be established:

Critical Events – For decades, changes to Steamboat’s STR policy have been discussed, but only recently did it become reality with the implementation of the Overlay Zones. Since 2017 there have been over 370 articles published in the *Steamboat Pilot* on the subject. Identifying the most substantial events that affected STRs will provide benchmarks of historic sales data to help track just how much these changes affected the market. The past six years have seen many discussions and iterations, but I have identified two of the most critical. The first was on June 11, 2021, when in an emergency session, the Steamboat Springs City Council enacted a 90-day moratorium on new STR applications to buy time to further consider the future of STRs.

The second critical event occurred 13 months later, on July 20, 2022, when Council passed an ordinance for a public vote to appear on the November 8, 2022, ballot on whether a 9% tax should be assessed on STR stays. The ordinance passed with a 62% majority.

Start Date – Looking at dollar-per-square foot values for all condominiums in Steamboat Springs, the market showed slow and steady appreciation from 2014 to mid-2019. Then, demand started outpacing supply, and in 2020 COVID hit, and that one-two punch gave condo values exponential growth (Graph 1). Therefore, to track the market in *typical* times, compared to when the STR topic began in earnest and became policy, a June 1, 2019, date seems reasonable.



Properties to Study – Critical to this study is using the most comparable properties for both Short-Term and Non-Short-Term Rentals. This would include location, age, unit size, quality, price range, sample size, etc. The following Short-Term properties were selected: Storm Meadows, Rockies, Trappeurs Crossing, The Lodge, Trailhead Lodge, Timber Run and Howelsen Place. Non-STR Properties include Fish Creek Condos, Meadowlark, Quail Run, Fox Creek, Walton Creek, Walton Village and Fox Springs.

Method of Analysis – Because properties differ widely in size, most real estate practitioners use a dollar-per-square foot value for comparing property values. This whittles down properties to their least common denominator, which is what a square foot of a property would cost, no matter if it is 500 or 1,250 square feet.

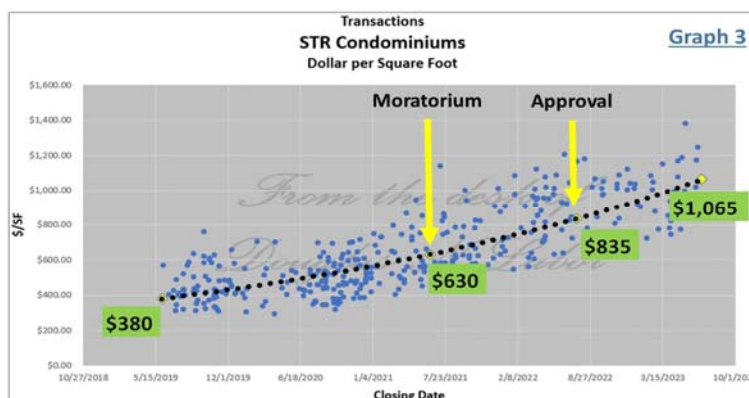
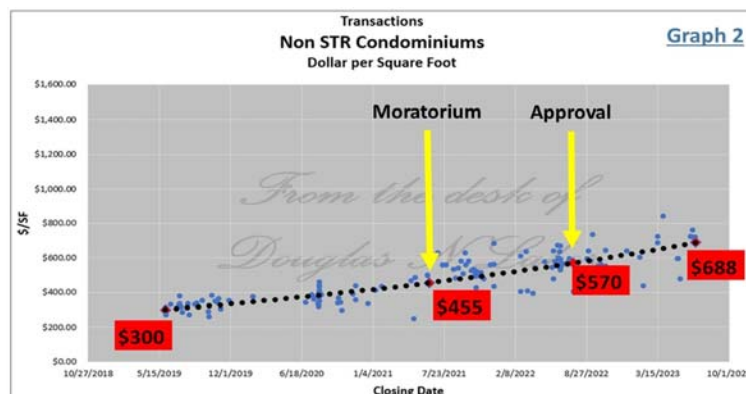
Summary – To determine if there was a monetary impact in property values from the City’s new ordinance on Short Term Rentals, dollar-per-square foot sales values for seven comparable condominium complexes of STR’s and Non STR’s will be considered. Sale dates are from June 1, 2019, which was considered in a normal real estate market to an end date of June 30, 2023, with certain benchmark dates along the way for tracking benchmarks.

What Overlay Zones Have Done to Property Values *cont...*

Non STR Condo Findings – The scatter graph below (Graph 2) shows 138 transactions occurred in the study. Overlaying a trendline for these \$/sf data points shows the starting point at \$300/sf, Moratorium and Approval Benchmarks at \$455/sf and \$570/sf, respectively and the finish line value at \$688/sf.

STR Condo Findings – Graph 3 shows STR transactions. These started at \$380/sf, with the Moratorium Benchmark at \$630/sf, Approval at \$835/sf and June 30, 2023 end at \$1,065/sf.

Conclusion – The chart below takes those data points and shows STR values at the beginning of this study sold 127% higher than their Non-STR counterparts. Then, as time progressed, and the realization that Short-Term Properties would be limited in supply due to the overlay zones, the \$/sf values increased by 138% when the Moratorium hit, then the STR tax was added to the November ballot and demand grew with a 146% spread between the two, and eventually increased at the end of the study period in June 2023 with a 155% spread. The average \$/sf value of a Short-Term Rental fetched over \$1,000/sf while Non-Short Term Rental properties averaged \$688/sf. Start-to-finish, the ultimate spread over these four years saw non-STR properties appreciating 129% and STR properties appreciated 180%, clearly showing the demand for STR's, which appreciated 51% more. COVID did impact the market during this time, but the impact would have been equal.



Appreciation Comparison					
	6/1/2019	7/15/2021	7/20/2022	6/30/2023	% Appreciation
Non STR \$/SF	\$ 300	\$ 455	\$ 570	\$ 688	129%
STR \$/SF	\$ 380	\$ 630	\$ 835	\$ 1,065	180%
\$/SF Difference STR:Non STR	127%	138%	146%	155%	51%

This data indicates the STR property rights taken away from the overlay zones negatively affected their values. However, that is not necessarily a bad thing, for

some owners in those newly prohibited zones may have a different use and enjoyment from their properties, as either a primary residence or vacation home. But for those seeking a return on their investment, the income is justification to pay a higher price. With the reduction of Steamboat's 'warm bed' inventory, it is also reasonable to expect the income for those remaining STR's to receive greater income from the lower bed base.

ABOUT DOUG...

Doug Labor has over 40 years of real estate experience, including executive level positions with some of the largest ski and golf resorts in North America. He is the General Manager of Steamboat Sotheby's International Realty. What he enjoys most in his real estate practice is providing imaginative, yet logical and valuable guidance in helping clients reach their goals.



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