



Montana's Short-Term Rental Market Expands to Cater to Diverse Hospitality Needs

2023 Short -Term Rental Market Overview

Montana visitors (all 12 million of them) have many options for lodging. But traditional options like hotels and campgrounds have experienced rising competition from an unlikely opponent: short-term rentals. The University of Montana Institute for Tourism and Recreation Research says that 10% of visitors to Montana rent a home or condominium.

Short-term rentals, or STRs, are not a new concept. For decades, STRs have flourished in resort towns like Whitefish. What has changed are the locations: STRs are now a part of the landscape in the neighborhoods of most cities and towns across the state.

The Upside

Low Barrier to Entry

STRs offer a very low barrier to entry for investors. A single furnished room in a home or an apartment is enough to jumpstart an STR empire. There are no fees to list on sites like Airbnb or VRBO, as fees are only assessed when a guest books a stay.

However, some cities (including Bozeman and Missoula) require fees and licenses to operate STRs. Fees to start a

STR in Missoula total close to \$800. In Bozeman, the fees total around \$500.

Income

One of the biggest draws of STRs is potential income. Income from a well-managed STR in a popular location is very likely to exceed what the property could earn from a long-term rental. In Missoula, the average one-bedroom short-term rental is expected to bring in \$34,000 a year in gross income - 125% more revenue than the average one-bedroom apartment on a long term lease generates.

In Missoula and Bozeman, about 10% of the STR inventory is a room in an owner-occupied home. Operating with the single-room STR model provides income from an underutilized space, with some owners noting that it's an essential component of their house payment.

Flexibility

Flexibility can be a primary motivator to convert a long-term rental to an STR. STRs allow a property owner to maintain the use of a property as needed and, without a long-term lease in place, they can use the home for visiting friends and family. The home can also be brought to market for sale more easily.

Inventory Options

Communities need options to accommodate travelers, especially in tourism-dependant cities. Not all travelers are tourists. STRs are also popular with business travelers. Many business travelers, including travel nurses, have longer stays in communities and STRs can be more convenient than hotels for many reasons. Amenities like full kitchens, neighborhood settings, and more homey surroundings are especially attractive.

Another group of people using STRs: people traveling for medical care. STRs may be more convenient or cost-effective than a hotel room, and can often accommodate children and pets with outdoor space.

The Downside

Labor

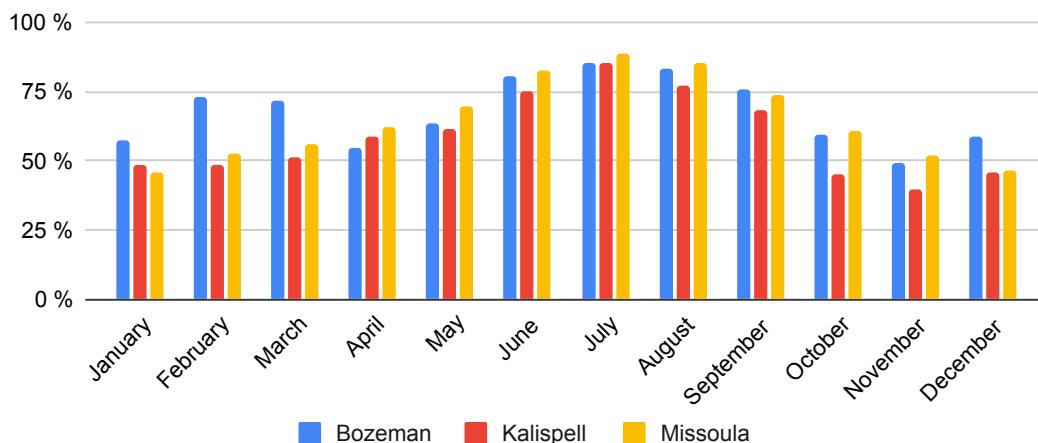
STRs require a hospitality mindset, which doesn't always come naturally to landlords. Landlords must restyle themselves as innkeepers to compete with hotel customer service. Get ready for late-night calls about lockouts, faulty Wi-Fi, or missing toilet paper. Units must be clean and in perfect condition for the next guest - often with little turn

Seasonal Markets

Montana's short-term rental markets are subject to seasonal variations in occupancy rates, which can have a significant impact on rental income. In particular, the cities of Missoula and Kalispell experience high demand during the summer months, while occupancy rates tend to decline from late fall through early spring.

Bozeman, on the other hand, sees a second surge in occupancy during December and March, coinciding with the ski season. As a result, property owners in these markets should be mindful of these seasonal patterns and adjust their rental strategies accordingly.

Short-Term Rental Occupancy Rates by Month



Source: AirDNA

time between guests. Furnishings must be well-maintained and replaced as needed.

For all of these reasons (and many more), some owners outsource management to companies that charge high fees. Understanding all the costs - including time and fees - is important when evaluating an investment.

Public Perception

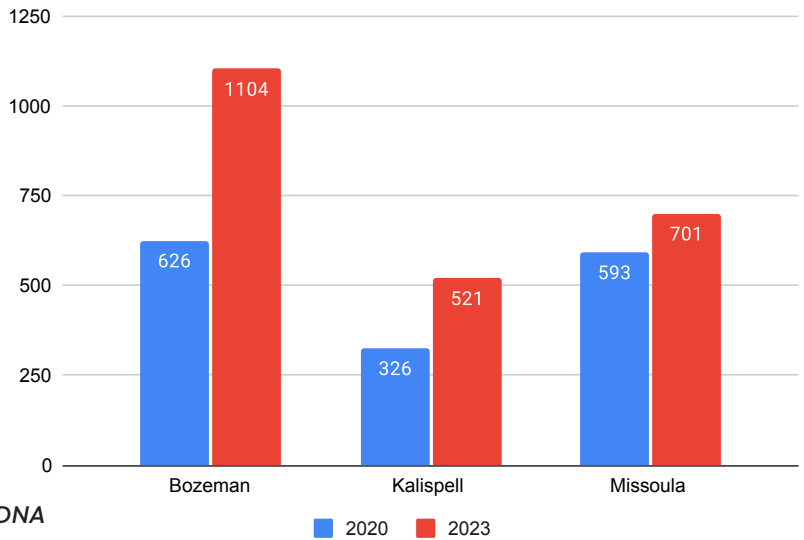
For cities with housing availability issues, STRs are a frequent target in discourse around these challenging markets. Opponents note that if all STRs became long-term rentals there would be a bump in apartment vacancy rates and rents would likely drop. As a result, locals would struggle less to find housing.

The flip side is that locals rent a room or a garage apartment to generate income that can help pay a mortgage or rent - which allows them to stay in their communities

Some cities are limiting STRs to manage the impact on housing availability. Cities across Montana are not taking major steps to limit short-term rentals, though Bozeman has limited short-term rentals in some residential districts to owner-occupied homes.

As a result, it's important to understand local resident concerns about STRs and continue to be a good neighbor,

Short-Term Rental Growth by Market | Unit Count



Source: AirDNA

whether renting a single room or a portfolio of properties.

Here to Stay

STRs are likely to remain a staple across Montana. Most larger cities will probably continue to consider new fees for operators, with small towns on prime tourism corridors following suit. Additionally, the State of Montana is considering a bump in property taxes for STRs.

Travelers across Montana will have more lodging options as new hotels continue to open. While hotels may claw back some market share, travelers are still split in their preferences.

Competition is good if you are a traveler. Hotels saw market share eroded by STRs and, in turn, stepped up their offerings. As the STR market gets more competitive, hosts will likely also need to level up their customer service.

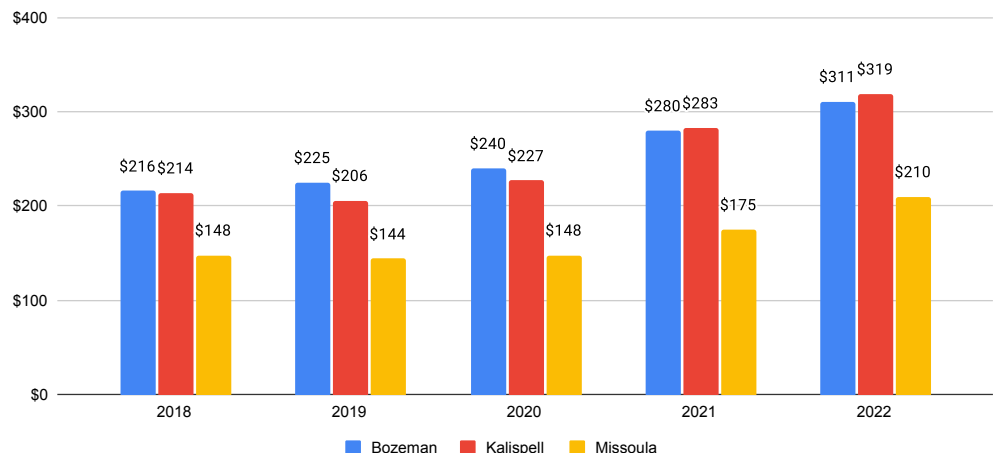
For communities, short-term rentals insure a variety of accommodation options for visitors, boosting tourism. They also provide the opportunity for residents to make extra income from underused properties.

Average Daily Rate Trend by Market

Montana's short-term rental markets are experiencing an increase in Average Daily Rates (ADRs) due to rising demand, improved pricing models, and upgraded rental units. Property owners can access tools such as PriceLab and AirDNA to optimize pricing and maximize rental income during periods of high demand.

It's crucial for property owners to stay informed and take advantage of available resources to generate maximum revenue from their short-term rental properties.

ADR by Market- Five Year Trend

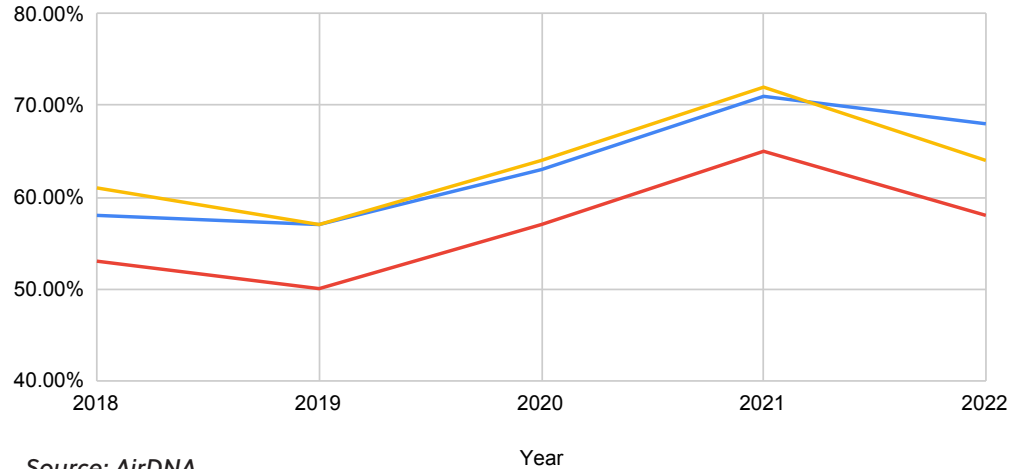


Source: AirDNA

Occupancy Trends by Market

Occupancy rates in various short-term rental markets peaked in 2021, but declined in 2022, while ADRs increased. This may indicate a drop in demand due to rising prices. Short-term rentals served as a substitute for traditional apartments in 2020 and 2021 when vacancy rates were low in some cities. However, as vacancy rates increased in 2022, more people moved directly into apartments, reducing the need for short-term rentals. Property owners should stay informed about market trends to adjust pricing and marketing strategies for maximum rental income.

Occupancy Rates by Year



Valuing Short-Term Rentals

As a property owner, it's important to be aware of how changes to your rental program can impact the value of your investment. If you've recently made the transition from a long-term to a short-term rental program, it's likely that your property's value has been affected.

Rental properties are typically valued based on their income, and short-term rentals tend to generate higher net operating income than long-term rentals.

Note that the capitalization rates (cap rates) for short-term rentals are often higher than those for traditional multifamily properties. This means

that while the income generated by a short-term rental may be higher, the overall value of the property may not necessarily be greater than that of a long-term rental.

If you're interested in obtaining an updated valuation for your short-term rental property, reach out to Sterling Advisory Services.

Your Real Estate Questions. Answered.

Sterling Advisory Services (SAS) is a team of real estate experts who combine experience with best-in-class market data to answer real estate questions. With experience visioning, developing, and marketing residential, industrial, retail, office, and mixed-use properties, SAS can provide insight and clarity for your most important real estate decisions.

Let us help you:

- ◆ Value your property
- ◆ Determine the best use for your site
- ◆ Plan a project that is on track with market conditions
- ◆ Find the best location for your real estate development
- ◆ Make your property more valuable
- ◆ Effectively negotiate upcoming lease renewals and building sales
- ◆ Understand demand for commercial real estate across Montana

For more information on our services or to sign up for market updates, call or email:



Matt Mellott, CCIM/SIOR
Matt@SterlingCREadvisors.com
406-203-2950



Maggie Collister
Maggie@SterlingCREadvisors.com
704-780-7510



Sterling
ADVISORY SERVICES