

Date: 10.21.22  
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Village of Suttons Bay

**Project: Short-Term Rental Ordinance**

  
initiative

The Village of Suttons Bay is evaluating their short-term rental ordinance to determine if the existing regulatory framework is aligned with the community's goals for the management of short-term rentals in the village. The following report will outline the purpose of a short-term rental ordinance, provide recommendations for establishing a cap on the number of short-term rentals (STRs), distribution process for STR licenses, application procedures, and additional considerations for a short-term rental ordinance. Recommendations were synthesized from a review of 51 existing short-term rental ordinances in the State of Michigan and professional best practices regarding STR licensing and sustainable tourism.

### Short-Term Rental Purpose

The purpose of a short-term rental ordinance is to secure the public health, safety, and general welfare of residents, property owners, and visitors of the Village of Suttons Bay by regulating short-term rental properties to prevent nuisances and safety hazards that interfere with rights to conduct normal, daily activities without unreasonable interference and to provide safe and healthy living arrangements for visitors who rent property on a short-term basis.

It is found that:

1. Short-term rentals, properties that are rented for a period(s) of less than thirty consecutive days, are becoming increasingly popular and widespread in the village following the rise of the online short-term rental marketplaces.
2. Residential structures in the village may be increasingly purchased for the sole purpose of short-term rental purposes.
3. Commercial and recreational activities associated with short-term rentals are frequently incompatible with residential uses.
4. Widespread short-term rental properties are consistently in conflict with the goals outlined in the Suttons Bay Community Joint Master Plan. Including,

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but not limited to, Goal 1: Create a range of housing opportunities and choices and Objective 1.1: Increase housing opportunities to accommodate young professionals, young families, and others within the lower and medium income range.<sup>1</sup>

5. A shortage of available housing for residents directly affects the economic health of the village and its residents because employers in the village are unable to attract workers to the community.
6. The conversion of year-round housing to short-term rentals can also decrease the number of students in the community resulting in a revenue loss to the public school district.
7. The purchase of available housing units by investors to operate short-term rentals may negatively impact housing affordability and artificially inflate housing values.
8. Short-term rentals are an important part of the tourism industry, on which the village is heavily dependent.
9. Short-term rentals fill gaps in the accommodation industry, allowing visitors to stay in areas that lack traditional accommodation businesses.
10. Property owners who rent their dwelling unit as a short-term rental are able to generate income off a traditionally non-revenue generating property.

### **Determining Capacity & Concentration**

The village has determined that the existing 61 operating STRs, as of October 2022, exceeds the community's capacity for STRs and is inconsistent with the goals outlined in the Master Plan.<sup>2</sup> STRs comprise roughly 13% of the total housing stock in the village.<sup>3</sup> Therefore, it is necessary to establish a cap on the number of STRs permitted. Of the reviewed ordinances, 18% had established a cap. On average, the cap was 3.6% of the total dwelling units in those communities. The highest ratio of licenses to dwelling units is in Suttons Bay Township, which permits 150 licenses – 9.2% of their dwelling units. If Suttons Bay capped the number of licenses at the number of currently operating STRs it would be the highest cap in the state. In Leelanau County specifically, the average cap is 6.4% of the housing stock. However, it is important to note that most Leelanau County communities with a

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1 Suttons Bay Community Joint Master Plan, August 2011, [https://www.leelanau.gov/downloads/joint\\_master\\_planaugust\\_2011.pdf](https://www.leelanau.gov/downloads/joint_master_planaugust_2011.pdf)

2 Ibid.

3 United States Census Bureau, 2020 Decennial Census, H1



STR cap have not met the current cap.<sup>4</sup> A year after adoption of an ordinance, Elmwood Township met their cap on STRs in September 2022.<sup>5</sup>

Community	Current Number of STRs	STR Cap	Dwelling Units (DUs)	Current STR / DUs	Max STR / DUs
Suttons Bay Township	34	150	1,629	2.1%	9.2%
Bingham Township	55	86	1,410	3.9%	6.1%
Elmwood Township	93	93	2,388	3.9%	3.9%
Average	~61	~110	1,809	3.3%	6.4%

There is no perfect number for determining the cap of STRs in a community, but it should strike a balance between the needs of local residents and property owners and those of visitors and STR owners. As shown in the table above, the existing number of STRs in Suttons Bay Township, Bingham Township, and Elmwood Township is 4% or less of the total number of dwelling units – reflecting the current state of demand for STRs in these communities. A 4% cap (18 STRs) would reflect a restrictive cap for the village but given that the village has more commercial activity than the three townships above and is a top destination in the region a slightly higher cap is warranted. A recommended cap of 25 STRs (5.5% of the dwelling units in the village) would balance the needs of the residents and property owners while providing accommodations for visitors and supporting local businesses that rely on the tourism industry. At most, the cap of STRs should be set at 45, which would still be the highest cap (as a percentage of dwelling units) in the State.

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4 Village of Suttons Bay Report VSB-2022-27 STR Ordinance Discussion

5 Staff communication with Elmwood Township 10/05/2022

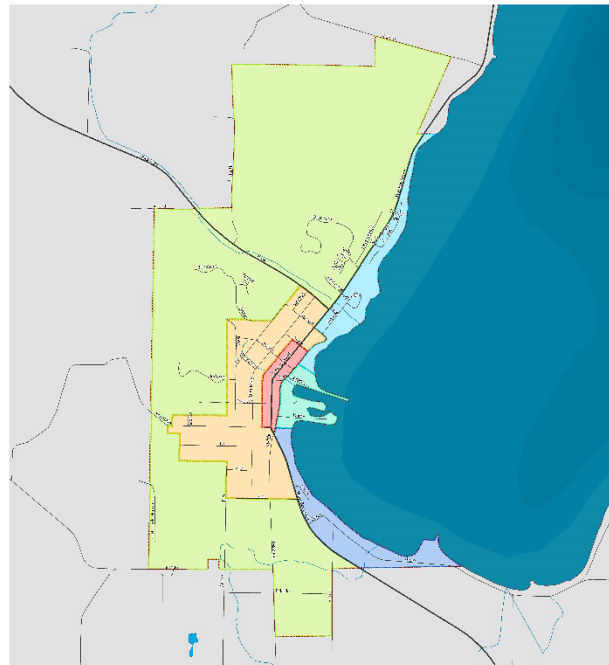
	Restrictive Cap	Recommended Cap	Liberal Cap
Annual STR licenses	18	25	45
Percentage of the housing stock	4.0%	5.5%	9.9%
Change compared to existing	-43 (-71%)	-36 (-59%)	-16 (-26%)

### Concentration

One challenge of setting a flat cap is that all STRs could be licensed on the same street or block. There is inherent value in ensuring that STRs are distributed in a sensible manner throughout the community. The Village of Elk Rapids Short Term Rental Ordinance is currently structured for the Village Council to set caps on a district basis. It is recommended that the Village of Suttons Bay allocates the recommended 25 licenses in a similar manner.

District	Allocation
Business Core	20% (5)
Core Neighborhoods	32% (8)
Outer Neighborhoods	16% (4)
Waterfront – North	16% (4)
Marina	0% (0)
Waterfront – South	16% (4)

Allocation of licenses to each district was based on the current distribution of STRs. The highest concentration of STRs is around downtown Suttons Bay. The five licenses allocated to downtown are intended to accommodate second-story residential units that are being used as STRs. The highest allocation of STRs is in the “Core Neighborhood District” with a recommended 32% of the licenses



**STR District Allocation**

- Source: Michigan Open Data Portal, City of Muskegon  
Buckler & Reed, Inc.
- Business Core
  - Core Neighborhoods
  - Outer Neighborhoods
  - Waterfront - North
  - Marina
  - Waterfront - South



being allocated into the neighborhoods adjacent to downtown. Many of the currently operating STRs are located in this district and the proximity to downtown will allow visitors to walk to destinations in the city, reducing traffic on the roads.

### **License Distribution**

There are more people operating licenses in the village than the recommended cap of 25. Therefore, when new regulations are put in place there must be a process for distributing the available licenses to applicants. Two options for issuing the license after ordinance adoption would include a lottery or a scoring rubric.

It is recommended that a lottery system takes place to ensure fair distribution and provides limited legal challenge. However, given that each of the districts above has its own cap several lotteries will have to take place. Each district will need its own lottery system and applicants will have to specify in which district their STR is located.

A scoring rubric can be used if there are certain requirements that the village would like to have met in granting a license but caution should be used when generating requirements and that they are tied to the use. It is recommended that this rubric be created in consultation with the village attorney to insure that scoring items can be considered in the issuance of license. While communities have had success in granting licenses with a rubric, other have been legally challenged on the content of the scoring rubric.

### **Application Process and Procedures**

The village's current short-term rental ordinance sets the validity of a license at three (3) years. Given that the recommended regulations reduce the number of STRs in the village, the validity period should be reduced to one (1) year, requiring current and prospective STR operators to apply annually. It is recommended that licenses be valid from January 1 thru December 31. This allows the village to send out a mass reminder mailing to licensees and for bulk processing of applications. After the initial distribution of licenses through the lottery, those who wish to obtain a license should submit a complete application to the village for review. If the application is approved the applicant is placed on a waitlist for the district in which their STR is located. At the conclusion of licensing year if one of the allocated spots becomes available, the first person on the waitlist should be given the license.



### *Licensing Timeline*

	Regulations are adopted
Month 1	STR application opens
Month 2	Lottery is held to distribute licenses Those who do not receive a license are placed on their respective waitlist (based on district) in the order in which applications were received
Nov. 1	Current license holders are given the opportunity to renew their license
Nov. 30	Renewal window closes Current license holders who do not complete a renewal application may submit an application but are placed on their respective waitlist
Dec. 1	Applicants on waitlist are notified if a license is available Applicants on waitlist are asked to certify that all information in their initial application is still valid
Jan. 1	Licenses are issued
Nov. 1	Current license holders are given the opportunity to renew their license
Nov. 30	Renewal window closes Current license holders who do not complete a renewal application may submit an application but are placed on their respective waitlist
Dec. 1	Applicants on waitlist are notified if a license is available Applicants on waitlist are asked to certify that all information in their initial application is still valid
Jan. 1	Licenses are issued

### **Additional Considerations**

In review of the STR ordinances several common elements emerged that the village may consider for any new regulations.

#### *Limited Rentals*

Several ordinances exempt rentals that are rented for a total period not to exceed 14 days in a calendar year and no more than one (1) rental occurrence per month.



### *Additional Exemptions*

Family Occupancy. A member of the owner's family, as well as that family member's guests, may occupy a premises as long as a member of that family retains ownership of the premises. The family occupancy exemption also exempts family occupancy of guest houses or similarly separate dwellings lawfully located on the same premises, when occupied by family guests, exchange students, visitors, medical caregivers, and child caregivers, without compensation to the owner.

House sitting. During the temporary absence of the owner and the owner's family, the owner may permit house sitting occupancy without remuneration to the owner.

Dwelling sales. Occupancy following closing by a prior owner after the sale of a premises for the length of time agreed to by the parties to the dwelling sale agreement.

Estate representative. Occupancy by a personal representative, trustee, or guardian (including family members) of the estate of the owner, with or without compensation. The estate shall notify the city of the owner's name, date of death or incapacity, and name of the person occupying the premises.

### *Daytime Occupancy*

Several ordinances limit the number of daytime occupants to 1.5x the max occupancy of the STR. Section 4(A)(4) of the village's current STR ordinance limits events to the number of permitted guests but sets no standards for daily activities.