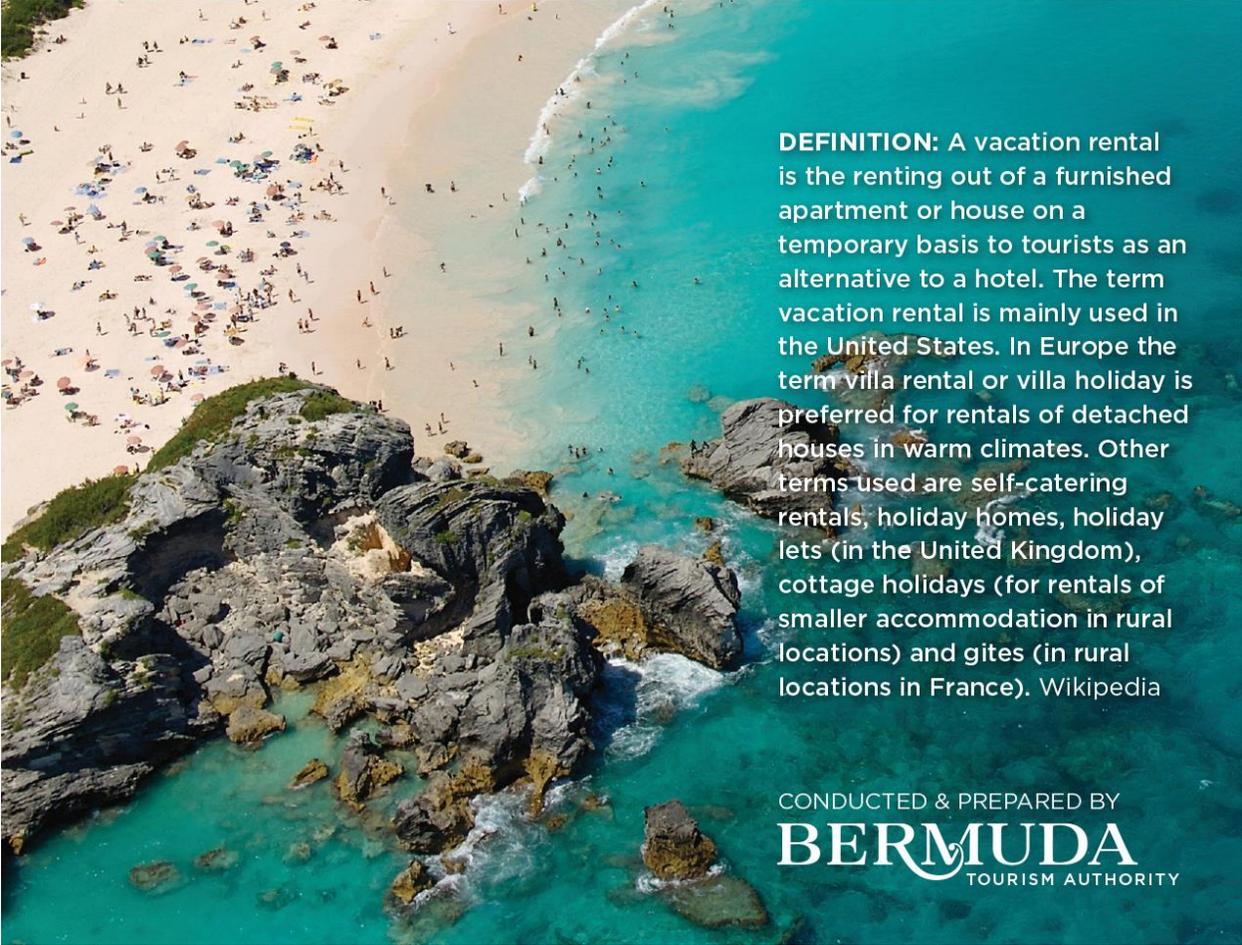




BERMUDA ACCOMMODATIONS: *The Vacation Rental Property Market*

AN ANALYSIS & RECOMMENDATIONS

APRIL 2015



DEFINITION: A vacation rental is the renting out of a furnished apartment or house on a temporary basis to tourists as an alternative to a hotel. The term vacation rental is mainly used in the United States. In Europe the term villa rental or villa holiday is preferred for rentals of detached houses in warm climates. Other terms used are self-catering rentals, holiday homes, holiday lets (in the United Kingdom), cottage holidays (for rentals of smaller accommodation in rural locations) and gites (in rural locations in France). Wikipedia

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Bermuda Accommodations

The Vacation Rental Property Market An Analysis and Recommendations

I. Introduction

In Bermuda there are approximately 273 Vacation Rental units with roughly 437 bedrooms, the equivalent of 11% of Bermuda's licensed accommodation room count. This sector is largely self-regulating and currently operates with complete autonomy. There is no description of these Vacation Rental Properties in Bermuda's legislative or regulatory framework: while a Vacation Rental Property (VRP) is often portrayed as a personal relationship between the VRP owner and visitor, it is undisputedly a commercial relationship. Annual revenues generated by this local industry sector, based on 70% occupancy, are estimated to be \$20 million.

As identified in the Bermuda's National Tourism Plan, accommodations are an integral part of Tourism Value Chain. Whereas some hold the view that VRP's augment the current lack of licensed hotel beds, and therefore compete in the same arena, this sector has a number of key market differentiators that demonstrate their separation from licensed properties. The Bermuda Tourism Authority (BTA) undertook a review of the VRP market in relation to the island's challenges and opportunities as identified in the National Tourism Plan (NTP), seeking to align the sector with the NTP's eight strategic objectives.

In preparation of this discussion paper, the BTA sought to actively engage VRP owners and other likely impacted stakeholders, including VRP agents, hoteliers, and potential VRP providers on this topic. The BTA conducted a discussion forum as well as an online survey to gauge the public's opinion on the subject of vacation rentals. The forum, held during the Bermuda Tourism Summit in January 2015, was an interactive session which more than 100 persons attended. The online survey was open for two weeks in February: 216 persons responded, 71 (33%) of whom self-identified as VRP owners. Additionally, a position paper on VPR was submitted by the Bermuda Hotel Association. Finally, a VRP focus group consisting of VRP owners and agents was convened to provide input on the BTA's proposed recommendations.

The results of the BTA's comprehensive collaboration on Bermuda's VRP market are summarised herein. Further, this paper proposes a framework by which the VRP market can play a clearly defined and integral part in meeting the objectives of the NTP.

II. Executive Summary

Vision

For Bermuda to be recognized as a destination which embraces our Vacation Rental Market and positions it as a competitive advantage, resulting in the island's reemergence as a favoured and frequently visited destination for an expanded market of travellers. (As per the National Tourism Plan)

Objectives

- i. Develop a 'light-touch' regulatory framework specific to VRP in Bermuda that enables visitors choosing a VRP for their on-Island stay to do so with confidence.
- ii. Ensure Bermuda's VRP sector positively reflects on the overall product and experience that Bermuda markets and provides to our visitors.
- iii. Create a voluntary registry of Bermuda's VRPs to market and promote alongside traditional guest accommodations.

Bermuda's Vacation Rental Property Market

While some may argue that the VRP industry is one that promotes itself, the majority of those in the local tourism sector recognise that marketing done on behalf of Bermuda as a destination benefits all related businesses – from hotels and VRP, to local retail establishments, restaurants, events, products and experiences. Potential visitors first look to see what the Island has to offer, then to ensure that their preferred type or style of accommodations are available based on factors most important to them.

The attraction of VRP for Bermuda's visitors are many and a reflection of the global demand for accommodations of this type:

- ✓ **Price:** Though VRP in Bermuda can fetch up to \$2,000 per night, the variety of units provide many cost effective options. Guests can rent a private room starting at \$50 per night or an apartment for as little as \$75 per night.
- ✓ **Location:** VRP provide accommodations in areas that may not have other commercial accommodations close by. This allows guests the option to be closer to desired amenities or points of interest.
- ✓ **Extra Space:** When travelling in groups, VRP provide a sense of comfort and privacy which may be cost prohibitive or unavailable at traditional hotel accommodations.
- ✓ **Community:** VRP in Bermuda allow visitors to immerse themselves into the local culture and gain a closer perspective of Bermudian life. Unlike other countries, the majority of our vacation rentals are residential homes. It is commonplace in other destinations for many of these accommodations to be located in gated communities or apartment/condo complexes.
- ✓ **Variety:** Bermuda's VRP inventory range from high-end luxury units in Tucker's Town to studio apartments in northeastern Hamilton. Some properties have private beaches, pools, barbecue pits and other amenities which are hard to access in traditional types of accommodations.
- ✓ **Cultural Experience:** VRP can allow visitors to have a genuinely cultural experience. Due to locality (most likely within a residential neighbourhood), there is a strong possibility they will have the chance to interact more with locals. They may engage in some Bermudian pastimes such as football, cricket, Gombey or other activities locals enjoy for entertainment.

Throughout the BTA's process of engagement on the topic of VRP, it was clear that this subject cut across many sectors and aspects of the community. All who provided input recognised the importance of VRP to Bermuda and many have requested that the market be promoted to visitors; and the majority believe some level of standards are necessary to minimise reputational risk as the industry grows.

Bermuda Stakeholder & Public Input

The BTA sought input from VRP stakeholders on the subject of vacation rentals, and provided an opportunity for input from the general public. A discussion forum attended

“Vacation rentals make Bermuda a more affordable destination to many that might not typically look at Bermuda as a destination. - *BTA Survey Respondent, 2015*”

by more than 100 persons was conducted; an online survey was released and received 216 responses; a position paper was submitted by the Bermuda Hotel Association; and a focus group of VRP owners and real estate agents was held. The discussion forum was incorporated into a VRP presentation at the BTA's Summit in January. Attendees took advantage of the opportunity to provide input with regards to the industry's challenges and opportunities. All VRP owners or managers on-island were invited to this session which allowed for a robust dialogue amongst those in attendance. Topics discussed covered Quality Control & Standards, Safety, Liability, Transportation, Promotion and competition with other commercial accommodations.

The BTA also invited the VRP owners as well as the general public to participate in a survey from which open comments have been incorporated throughout this document. The survey results are as follow:

- 91.3% of respondents feel vacation rentals fill a niche for customers who do not prefer traditional accommodation types
- 51.7% felt VRP can help homeowners pay their mortgage and invest in their property
- 17.9% feel VRP compete with traditional accommodation types
- 66.7% felt it was necessary to have quality control standards for vacation rental properties
- 70.4% felt there was a need for safety standards
- 58.2% feel that the establishment of safety standards would have a positive impact on the industry
- 63.5% feel there should be a registry of these properties
- 72.9% feel VRP should be promoted similar to other guest accommodations
- Of those currently providing vacation rentals, 63.9% would list their property with a BTA registry

Having reviewed Bermuda's VRP market history, current status and future potential, studied international trends, and sought counsel and input from a wide range of stakeholders, the BTA makes the following recommendations in regards to the VRP market:

- Define VRP through legislation
- Mandate relevant health and safety standards
- Require 2.5% Visitor Fee collection from all VRP
- Offer voluntary registration option with additional benefits

Background, rationale and details for each of these recommendations follows.

III. Vacation Rental Properties – An Overview

Vacation rental properties were the earliest form of accommodation and have been present in the industry since. As a staple of the travel and tourism industry, VRP have enjoyed longstanding popularity in Europe and their use is increasing in the US and other countries around the world.

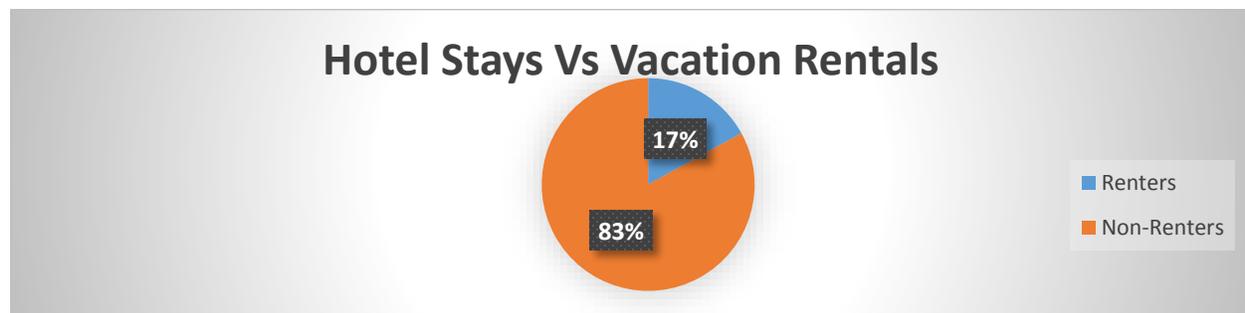
In Bermuda, VRP are not a new phenomenon, nor is the term clearly defined. Various private properties on-island have been operating as a VRP for over 30 years and many visitors during Bermuda's College Weeks in the 1970s and 1980s utilised this kind of accommodation.

In 2014, 27,342 vacationers stayed in private Bermuda accommodations representing 19% of leisure travellers or 12% of total air arrivals. In 2011, there were 22,505 vacationers staying in private homes representing 9.4% of total air arrivals or 15.4% of leisure travellers. This represents a growth of 4,837 vacationers staying in private homes, an increase of 21.6% in three years.

Global Rise in Popularity

With a transition from traditional methods to online booking, access to and popularity of vacation rentals has increased substantially. According to PhocusWright, a research firm specializing in tourism, one in four vacation rentals were booked online in 2012 compared to one in ten in 2007. While less than 50% of vacation rentals were online in 2007, 70% had an online presence by 2012.

The growth of sites such as Home Away and Airbnb show the extent to which vacation rentals are in demand. In 2011 Airbnb had roughly 50,000 listings which has grown to over 550,000 in 2014. PhocusWright estimates US travellers spent \$23 billion on vacation rentals in 2012.



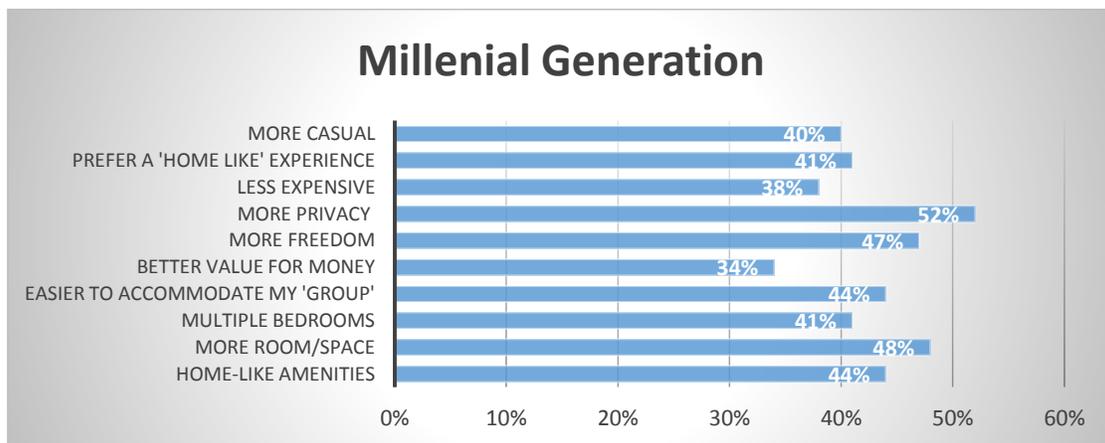
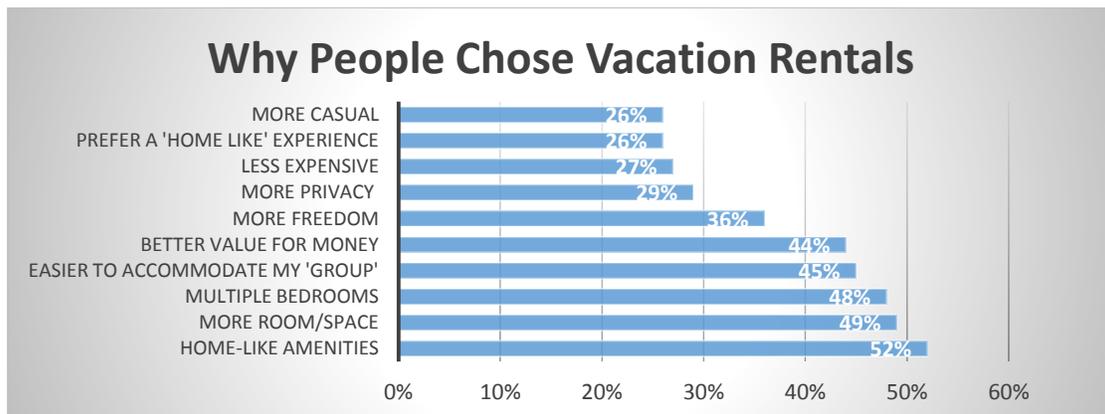
Who & Why of Vacation Rental Properties

The VRP space is considerable in size and poised for further growth. In 2012, US travellers booked \$23 billion in vacation rentals. With this level of demand coming from Bermuda's main market, it is crucial that the Island continues to provide the types of accommodations travellers are looking for:

- 17% of travellers (22 million) used a VRP in 2013
- Of those that rented, 46% did not consider a hotel while 19% stated the decision was made by someone else
- In the US half of those who rent (49%) were under 35 years old while in Bermuda approximately 26% of persons were under 35
- 18% of those who didn't rent did consider renting
- 24% of travelers have stayed in a VRP as an alternative to a hotel or resort in the past two years

Families: According to the Harrison Group 2012 Portrait of American Travelers, one out of four family travellers stayed in VRP as compared to licensed accommodations. Multi-generational travel is on the rise and larger families need amenities that VRP are more likely to provide. According to the AARC Affluent Traveler Study, 69% of affluent travellers in the US plan to stay in an owned or rented condo/villa in the next twelve months and 40% are planning multi-generational travel (at least three generations) in the next twelve months. Additionally, not all VRP renters are looking for low-budget accommodations. In fact, they tend to spend more than the traditional non-renting travellers.

Millennial Travellers: A report by PhocusWright stated that Millennials (those born from the 1980s through early 2000) represent 31% of all vacation travel. This demographic represents future growth for the tourism industry and a strategy to court them should assist the demand for the island in the long run. With culture being a major driver behind their choice in vacation, vacation rentals provide not only a reasonable price for Millennials but also the opportunity to gain exposure to Bermudian cultures.



The following chart from PhocusWright shows the spending habits of the different generations. Millennials spend far more on leisure travel primarily due to waiting longer to have kids as well as having smaller families.

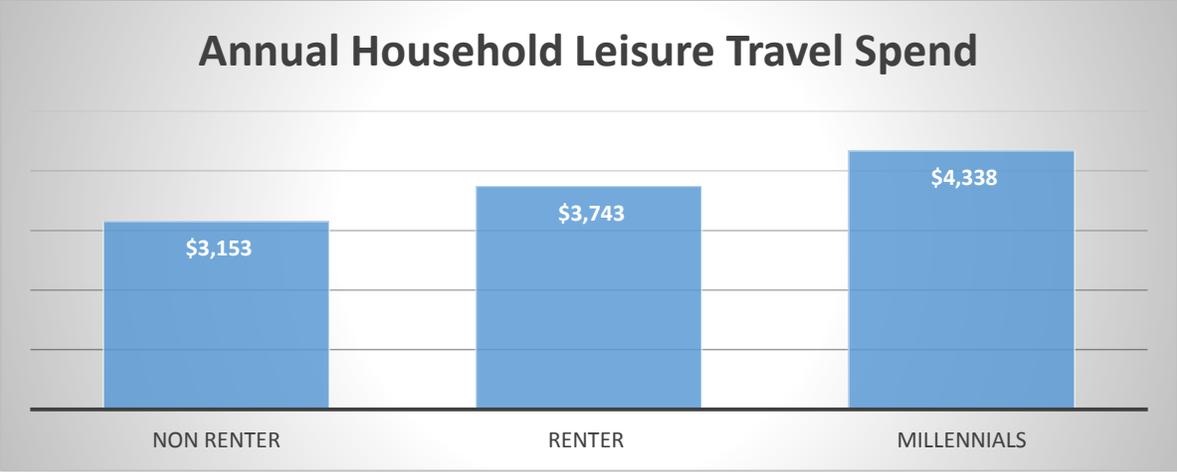


Figure 4

IV. Bermuda's VRP & the National Tourism Plan

The nature and size of Bermuda's vacation rental properties play in integral part in meeting all eight Strategic Objectives of the National Tourism Plan (NTP):

1. Build unique and competitive positioning
2. Create new demand and reduce seasonality
3. Rebalance air vs. cruise arrivals
4. Increase visitor spending
5. Improve quality throughout Tourism Value Chain
6. Build pride and create jobs
7. Support business development and attract investment
8. Create economic, social and environmental sustainability

NTP Objective 1 & 2 Competitive Positioning in New Markets

Bermuda's VRP sector presents an opportunity to position itself to the younger millennial market. This audience represents a different generation who are younger than the average Bermuda visitor; have greater discretionary spending than the college student market; and is the long term demographic for tourism. According to a Leisure Group Travel Magazine survey conducted on Millennials, 70% prefer immersive experiences when traveling.

“That Bermuda would consider quality control and safety standards would encourage more visitors as they would consider that Bermuda cared for their wellbeing.”

Further promotion to the family travel market is also an area of opportunity for Bermuda with at least 25% of vacationing families seeking VRP in their intended destinations. Family travel provides a broader level of exposure and increased expenditure due to the number of travellers. For both of these markets, VRP can allow for the truly cultural experience highlighted in the NTP and reflected in visitor data.

NTP Objective 3 & 4 Converting Cruise Ship Passengers to Air, Increasing Spending

In 2014, over 360,000 travellers came to Bermuda by cruise ship. This 'all inclusive' voyage is an affordable means of travel for many visitors, especially when compared to traditional on-island accommodations with per night cost of \$418* plus airfare, food and beverage and additional spending money. VRP, with their wide range of prices and amenities, provide a means of converting cruise passengers to air travellers who may want to visit Bermuda for a longer duration than a traditional cruise ship stay but cannot afford the rates at a traditional hotel. In 2014, 48% of visitors on a cruise ship had household income of +\$100,000, and for 50% of our air visitors the household income was also greater than \$100,000, an indication of the potential to transition cruise passengers into air travellers.

Given the lower economic benefits for the local tourism industry presented by cruise visitors (compared to air visitors), transitioning visitors from cruise to air will dramatically increase the economic impact on Bermuda. For every \$1 a cruise visitor spends in the local economy, an air visitor spends \$11.

**July Average Daily Rate in peak season*

NTP Objective 5 & 6 Improving Quality, Building Pride

The self-regulating element of vacation rentals requires homeowners to provide a consistent quality product and experience. As new VRP enter the market, similarly priced rentals will be required to demonstrate an equal value/price proposition or a clear service differential. Positive property reviews and/or continual bookings are proof of a desired product,

“I believe that if every vacation rental meets set standards, this can only reflect well on the Island as a whole. However, the standards need to be within reason, and with as little interference as possible by officials, or the vacation rental market could quickly and easily be negatively impacted. —BTA Survey Respondent, 2015”

something homeowners and their families, who now have a solid connection to the tourism/hospitality industry, will take pride in offering.

NTP Objectives 7 & 8 Supporting Local Business Development while Stimulating Bermuda's Economy

A robust VRP sector opens the door for new business development, particularly for those with an entrepreneurial mindset. The continued and growing demand for additional transportation options serving this market is but one area crying out for a solution probably best filled by a non-traditional method. Private and personal chefs, home delivery and mobile spa services are other examples of opportunities for entrepreneurs, but by no means an exhaustive list.

For homeowners, the VRP market opens the door for an additional source of income to put back into Bermuda's lagging economy. For the past six years, Bermuda's housing market has been on a downward trend. With the loss of an estimated 5,200 expatriate workers, the demand for long term rental units has been on a steady decline. This lack of demand also impacts some homeowners' ability to pay for their mortgage and non-performing loans have risen from 2.3% of the total portfolio in 2008 to 12% in 2013. With no likely immigration increase in the near future, the outlook for housing demand in Bermuda remains bleak. Though homeowners may not be able to find full-time tenants, there is an opportunity to earn revenue by providing vacation rentals. Based on an average daily rate (ADR) of \$164 for a one-bedroom unit with an occupancy rate of 72% per year, there is the potential to make approximately \$43,100 annually.

V. Bermuda's VRP Inventory & Statistics

In Bermuda, there are approximately 273 vacation rental units with 437 bedrooms, the equivalent of 11% of Bermuda's licensed accommodation room count. On average, the cost of a VRP unit is \$285 per night, however it is important to note that properties range from one to seven bedrooms. The majority of vacation rental units are located towards each end of the island with Southampton having 23% and both Sandys and St. George's each having 15% of total vacation rental inventory.

The BTA prepared an inventory of the local vacation rental market using numerous sources conducted an audit of the online offerings in Bermuda. Rental websites such as bermudarentals.com, bermudagetaways.com, airbnb.com, VRBO.com, HomeAway.com, and a hand full of others were evaluated. The BTA was able to approximate the number of rental units in Bermuda by reviewing the above mentioned sites and eliminating duplicates listed on multiple sites.

In addition to researching location, the BTA also gathered data on the average daily rate, sleep capacity, and number of bedrooms.

Number of Units

According to the audit, Bermuda has approximately 273 vacation rental units as of November 2014. The types of properties listed offer a wide variety of accommodations that range from ocean-front villas with pools and access to beaches to simple studio apartments in residential neighbourhoods.

Location of Units

The location of these accommodations are also scattered throughout the island. The area with the largest number of vacation rentals is currently Southampton with approximately 63 properties (23%) of the current vacation rental inventory. This is closely followed by Sandys 42 properties (15.3%), and St. George's 41 properties (15%). The table below shows the approximate amount of units by number of bedrooms available in Bermuda:

Number of Vacation Rentals in Bermuda by Parish as of November 2014

	Total	1	2	3	4	5	6	7
St. George's	41	27	11	2	1	0	0	0
Hamilton	31	14	6	9	1	1	0	0
Smith's	15	11	2	2	0	0	0	0
Devonshire	9	3	5	1	0	0	0	0
Pembroke	22	13	5	3	1	0	0	0
Paget	13	9	1	2	0	1	0	0
Warwick	37	24	7	3	2	1	0	0
Southampton	63	48	9	5	1	0	0	0
Sandys	42	24	7	9	1	0	0	1
Total	273	173	53	36	7	3	0	1

Average Rate

Local vacation rental prices or daily rates were obtained using the same audit process. The rates are categorized by parish and number of bedrooms. The average rate for all VRP accommodations was \$285 a night, while the average rate for a one-bedroom VRP unit accommodation was \$164 per night. The one-bedroom unit rate would be the most comparable to that of a single hotel room although it is difficult to compare vacation rentals to hotels for numerous reasons including amenities, services and standards. The following table shows the prices for vacation rentals as listed online.

Average Rate of Vacation Rentals by Parish as of November 2014

	Total	1	2	3	4+
St. George's	\$237	\$147	\$322	\$525	\$1,150
Hamilton	\$440	\$176	\$295	\$648	\$1,660
Smith's	\$319	\$174	\$575	\$863	NA
Devonshire	\$255	\$178	\$242	\$550	NA
Pembroke	\$297	\$158	\$249	\$743	\$1,000
Paget	\$298	\$177	\$415	\$333	\$1,200
Warwick	\$225	\$161	\$280	\$268	\$567
Southampton	\$204	\$160	\$274	\$473	\$615
Sandys	\$287	\$145	\$277	\$575	\$660
Total	\$285	\$164	\$325	\$553	\$979

Relative to licensed accommodations, vacation rental pricing with a one-bedroom unit averaging \$164 in the peak season is considerably lower than ADR of comparable resort hotel rooms. Conducting research on Expedia for hotel rooms in mid-June the lowest nightly rate found for a licensed accommodation was \$220 per night, or 65% more than the lowest listed vacation rental costing \$75 per night. The ADR for licensed accommodations in Bermuda last year was \$316.46.

It must be noted however that this ADR does not include smaller guest houses and apartments that would be more directly competitive with vacation rentals. The BTA also conducted short telephone interviews with the smaller licensed properties to ascertain their ADR: the lowest found was \$92 per night for a studio apartment, the highest was \$355 per night in summer for a two-bedroom cottage. The ADR across the properties interviewed was similar to that of the vacation rental market at around \$160-180 a night. It should also be noted that the properties called were asked to estimate these rates. Additional research would need to be done in this area to develop a more accurate measurement of the smaller properties' ADR.

In preliminary discussions with the members of the Bermuda Hotel Association (BHA), the majority of the larger properties do not see these type of accommodations as a major competitor. The BHA, in its response to a request for the position of their members on VRP, stated that "it is accepted that they (VRP) have always been part of the culture, and are clearly here to stay, as they are able to market themselves more efficiently through social media, websites, Bermuda Rentals etc."

VI. Local VRP Regulatory Environment

The current Hotel Act defines a licensed accommodation, in part, as sleeping accommodations for six or more guests. Currently, regulatory controls for properties that sleep less than six persons are non-existent. **No description of Bermuda's modern day Vacation Rental Properties currently exists in Bermuda's legislative or regulatory framework.**

With the growth in this space any framework implemented must ensure a level of safety for renters and guests as well as require VRP to contribute to Bermuda's tax base like other for-profit-businesses on island. If current trends are any indication, the demand for VRP will steadily increase in Bermuda. Bermuda needs to ensure it has all the necessary controls in place to assist this self-regulating industry to standardise certain elements of its product while assisting in its organic growth.

Licensed Tourism Accommodations

The Planning Statement 2008 states that a change of use application needs to be applied for when changing a residence into a tourist accommodation. A general planning application must be filled out with the associated fees, and the guidelines for any normal planning application would apply. This applies to accommodations with six or more beds. The Department of Planning does not currently do inspections of any tourism related properties unless they are a new build or renovation.

Industry Input

Upon request from the BTA, The BHA submitted a position paper on behalf of its members. The paper stated that:

The BHA would like to see the following incorporated in the information paper that is being prepared and hopefully considered on its merits by the government.

- 1) That a register of all vacation properties be maintained by the appropriate government department, and kept current for all properties that market themselves as an alternative to a hotel vacation stay / experience.
- 2) That appropriate regulations be implemented to ensure that each property conforms to, and maintains a minimal level of efficiency and standards that will reflect positively on the international reputation of Bermuda as a year round destination for the leisure and business traveller.
- 3) The register be utilised by government as a means of collecting the appropriate revenue from the operators such as occupancy tax, vacation home licensing fee (as potentially a new revenue stream for government).
- 4) Each property is subject to periodic inspections to ensure that they conform to health and safety, fire prevention standards, telephone services, and emergency contact information available on site, as well as having an appropriate form of property and personal injury insurance in place in the interest of their guest safety and comfort.
- 5) Generally that they are compliant in a similar manner as that of our existing hospitality / hotel operators taking into consideration their being classified in a new sub category under the tourism product model.

Health & Safety

Licensed properties are currently inspected by the Department of Health on a request or complaint basis only or, if they fall under the Hotel Licensing Act and Regulations, when annual inspections are carried out. They use the provisions of the Hotel Licensing and Safety and Health Regulations etc. as their guiding policy. The Department of Health would not normally be involved under current legislation for smaller units, such as private homes offering guest accommodation. The Department of Health is also involved in inspection of properties where food service is involved.

With regards to safety, Bermuda Fire and Rescue Service's fire protection officers are concerned there is a large volume of visitors in VRP each year which may not have the appropriate level of fire and life safety standards. This concern is heightened significantly when dealing with older properties and diminished for Planning-approved properties built or significantly renovated after 1998 because of modernized fire safety standards from that date forward. In either case, the Bermuda Fire and Rescue Service believes it is critically important to have fire and life safety standards for VRP as part of a coordinated plan to prevent a serious injury or death as a result of a visitor staying in an unsafe home.

It should be noted that these same safety concerns applies to all occupants in a residential home, whether owner-occupied, or short or long term renters.

VII. International Regulatory Trends

The topic of vacation rentals is being discussed at city, county and/or regional levels across the United States, Australia, and a number of European countries, while France is one of the jurisdictions taking a country-wide approach. Regulatory frameworks under consideration, covering mandatory requirements and assessed taxes, run the gamut from heavy to light.

MYTH: Vacation Rental Properties are commercial uses rather than residential because they generate income for the owner.

TRUTH: Any collection of rent generates income for the owner, but generation of income does not change the character of the residential use. By this definition, renting long-term would also not be a residential use because the owner generates income from renting the home. This is clearly not the case, nor is it the case with VRPs. —*Short Term Rental Advocacy Center, Austin, Texas*

One underlying tenet to all regulations is the recognition that using a residence as a vacation rental property arguably transforms the property into a business, albeit one that is no different than renting out the property long-term. As with most businesses government regulation is introduced to ensure the interest of all parties involved in the transaction. (Long-term rentals typically have lease agreements, some units may have rent controls, and landlord/tenant rights generally exist under local ordinances.) With the growth of VRP many states and cities have found it necessary to regulate these types of accommodations. The rise of sites such as AirBnB and Homeaway have increased the demand for vacation rentals to such a level that many cities have introduced regulations or are in the process of developing a set of rules specifically for these rentals. These sites themselves have come under scrutiny as many of the accommodation providers they list or promote are breaking city or country rules usually related to zoning and taxation. According to the Tennessee Ledger, a woman was fined \$22,000 for violating city laws - a fine of \$49.50 per day was imposed as the residence being used was not zoned for vacation rentals.

Renters also take a risk in an environment of no regulation. The risk includes properties that do not match what was advertised as well as an unresponsive host. Regulation can mitigate these issues as demonstrated in Hawaii where Maui County requires all properties to have a manager and only allows renting of the unit when the manager is accessible. There the regulation requires that:

The manager of the short term rental home shall:

1. be accessible to guest, neighbors, and county agencies. For the purposes of this section “accessible” means being able to answer the telephone at all times, being able to be physically present at the short term rental home within one hour following a request by a guest, a neighbor or a county agency, and having an office or residence within thirty driving miles;
2. ensure compliance with state department of health regulations, this chapter, permit conditions, and other applicable laws and regulations;
3. enforce the house policies; and
4. collect all rental fees.

Legal oversight also ensures that the host is operating within the bounds of the law and that the product provided to the renters meets minimum standards.

A statement from the North Carolina Vacation Rental Act states explicitly the importance of these kinds of regulation:

” The General Assembly finds that the growth of the tourism industry in North Carolina has led to a greatly expanded market of privately owned residences that are rented to tourists for vacation, leisure, and recreational purposes. Rental transactions conducted by the owners of these residences or licensed real estate brokers acting on their behalf present unique situations not normally found in the rental of primary

residences for long terms, and therefore make it necessary for the General Assembly to enact laws regulating the competing interests of landlords, real estate brokers, and tenants. (1999-420, s. 1.)”

Regulations have also been enacted to ensure that short term rentals do not negatively impact residential neighbourhoods, home values and the affordability of housing for residents. In order to maintain residential neighbourhoods in Maui, this is accomplished by requiring short term rentals to be provided by residents and not businesses as evidenced by the following regulations:

- Rentals must be provided by a natural person and not a business unless it is a family trust
- Applicants may hold only one short term rental home permit except when the market price of the house is higher than \$3.2 million
- Permits are not transferable

Maui ensures the safety of the property owners and neighbourhoods by, among other requirements, mandating that the policies of the house be displayed within the dwelling, the permit must be displayed outside of the house, and by not allowing parties or group gatherings.

VIII. Bermuda VRP Recommendations

The Principal objectives of the Bermuda Tourism Authority, as set out in its Act, are:

- a. to develop and promote Bermuda as a tourist destination;
- b. to advise and assist the government on matters relating to travel and tourism;
- c. to contribute to the economic growth of Bermuda by increasing the travel and tourism sector's contribution to the Bermudian economy;
- d. to implement the NTP and review and update the plan on a periodic basis;
- e. to provide appropriate tourism education and training
- f. to ensure the social and economic enhancement of Bermuda through the development of tourism and the implementation of the NTP;
- g. to ensure that the development of tourism is appropriate and sustainable given the size, environment and resources and population of Bermuda; and
- h. to charge fees for services rendered to travel and tourism enterprises as the Minister of Tourism Development and Transport may determine in consultation with the Minister of Finance.

In accordance with sections a), b), c), f), g) and h), and based on the VRP data reviewed, information gathered, stakeholder input and industry trends, the BTA recommends the following:

1. Define VRP through legislation
2. Mandate relevant health and safety standards for all VRP
3. Require 2.5% Visitor Fee collection from all VRP
4. Offer voluntary VRP registration option providing additional benefits

VRP PROPOSED	MANDATORY	OPTIONAL
2.5% Tourism Fee	X	
Safety Standards Compliance	X	
BTA VRP Registry		X

i. Bermuda's VRP Sector Defined

Proposed definition for a Bermuda Vacation Rental

There is no real difference between a visitor sleeping in a bedroom and a resident sleeping in a bedroom—the use of the property doesn't change. —
Short Term Rental Advocacy Center, Austin, Texas

Current lodging regulations are based on sleeping capacity; the government requires any property which sleeps over five persons to be licensed. With regards to vacation rentals, it is proposed that this sleep capacity be exchanged for a unit cap as to not disrupt a healthy and growing industry, or cause any confusion with the regulation of licensed properties.

The following criteria is BTA's recommended definition of a VPR:

1. Must be a residential property;
2. The use of the unit is the same as if it were a long term rental;
3. The entire property must be (a) rented as one single unit or (b) the number of bedrooms rented separately within the property, to an individual renter(s), does not exceed two; in each case (a) and (b) are considered one unit;
4. A maximum of three units may exist on the property, as defined by any combination of (a) or (b) above, excluding any unit exclusively occupied either by the owner or by a long-term lease holder;

5. Each individual property rental period must not exceed 90 days; and
6. Management of the property does not require full time employment.

Rationale

Bermuda's vacation rentals are unique with regards to tourist accommodation. Often the properties are someone's homestead with additional apartments that are rented to visitors, while in other instances the entire home is utilised as short term rental accommodations. The common factor in a Bermuda vacation rental is that a home zoned for residential use is being used as a short term rental accommodation, either partially or in totality. The fact that the property is being rented for visitor use does not change the fact that it is a residential property. There is no material difference in the use of the property except for length of stay when compared to long term rentals. Moreover, a vacation rental is unlike a guesthouse or hotel from the perspective that it doesn't require full time employees or provide the amenities available in other accommodation types.

ii. Mandatory Safety Requirements

66% of those survey in Bermuda felt there was a need for quality control standards and 70% affirmed the need for safety standards. However, the "devil is in the details" with many expressing a belief that this self-regulating market ensures poorly maintained properties will be shamed on social media, culminating in "a bad review and falling by the wayside".

“ Right now there are a lot of homeowners in pretty desperate situations without the desired cash flow to fix/update properties. They would be renting properties, collecting cash, and potential visitors end up with a poor product, poor impression...and it hurts all vacation rental owners in Bermuda. ”

Proposed

1. VRP must comply with Bermuda's relevant fire safety standards. Fire Inspectors recommend using the fire safety standards in the 2014 Bermuda Residential Building Code (2014 Code) as a guideline to vacation rental homeowners. Fire safety standards are found in Section 18. (For more details, see appendix A);
2. VRP owner must ensure there is working telephone within the unit (mobile or land-line); and
3. VRP owner must provide written safety information and a property guide with emergency contact details to include contact information on the person responsible for providing guest access to the unit as well as explain any house rules.

Rationale

The safety of Bermuda's visitors is one of the Bermuda's highest priorities. In today's instant information environment any report of visitor distress, injury, or death as the result of an accident, the act of a crime committed against them, or even due to their own action, can be widely reported within minutes. VRP safety regulations will assist in mitigating associated risks.

Enforcement

- VRP information to be given to visitors upon arrival at Immigration
- Check-list of what to expect
- Contact information for reporting non-compliance
- Information also to be promoted on BTA website

Benefits

- ✓ For Visitor: Confidence and sense of security when booking
- ✓ For Owner: Clear defined requirements and expectations
- ✓ For Bermuda: Positive economic impact on a national and personal level

iii. **Mandatory Collection of 2.5% Visitor Guest Fee**

Proposed

1. VRP to collect and remit 2.5% Visitor Guest Fee to the BTA



Let the homeowner provide the service they think is “sell-able” and the tourist (buyer) will decide based on their budget and their preferences.



Rationale

Vacation rental guests will be required to pay 2.5% of the total vacation rental rate, which the rental operator would be required to collect and remit. Applying the fee on these properties will provide homeowners with increased exposure through marketing, resulting in increased occupancy. This fee would be paid to the BTA on a monthly basis, consistent with properties that currently incur this fee, and will be used to promote vacation rentals in a similar manor as hotels and other accommodation types.

Enforcement

Will be consistent with BTA’s current fee collection for licensed properties.

Benefits

- ✓ For Visitor: Promoting a safe and secure experience for close to 30,000 visitors annually
- ✓ For Owner: Ensuring data is collected to support the health and direction of the industry
- ✓ For Bermuda: Sensibly stimulating the local economy this vital element of Bermuda’s hospitality sector

iv. **Voluntary Standards for VRP Registration**

The BTA will offer a voluntary registration process open to all units that comply with the mandatory required standards. An annual fee of no more than \$250 would be required for each unit registered and is to be paid by the homeowner.

“ A registry will help owners with marketing their properties and give potential visitors the widest possible choice for their accommodation. Visitors have a wide variety of tastes for the vacation from large properties with many amenities to a very personal experience by staying in hosted B&B. - *BTA Survey Respondent, 2015* ”

Vacation rental owners must meet these additional standards to register:

1. Proof of compliance with mandatory standards
2. Proof of insurance (Appendix D)
3. A plan to provide access to transportation if the property is more than ten minutes walking distance from the main road
4. A manager who is readily available to respond to visitors needs within a reasonable period
5. Provide additional guest information on transportation options, and information on the area and Bermuda in general
6. Clear explanation of house rules and surrounding neighbourhood

Registered units will receive, at minimum, have the following benefits:

For Owner

- ✓ Ability to record stats around the vacation rentals market and gauge the industries success
- ✓ Centralised request for, and distribution of, visitor materials
- ✓ Promotion through Website (Not booking)
- ✓ Participation in National Service Standards Programme
- ✓ BTA seal of approval usage in promotional materials

For Bermuda

- ✓ Build unique and create competitive positioning
- ✓ Increase visitor spending
- ✓ Improve quality throughout the Tourism Value Chain
- ✓ Build pride and create jobs
- ✓ Create economic and social sustainability

For Visitors

- ✓ Sense of security
- ✓ Ability to blog reviews on goto website

“ Rather than regulate with legislation, I think a star rating like hotels could be given by the BTA. This would tell guests what to expect and would create competition in the market. Please do not use a sledge hammer to crack a nut. —*BTA Survey Respondent, 2015* ”

VIII. Next Steps

Should the proposed recommendations in this document be agreed by government, the BTA would like to have them in place for 1 January 2016. The following has been identify as the steps necessary for implementation:

Government

1. Legally define VRP
2. Legislate mandatory standards
3. Update BTA Act to clarify rate determination process

Bermuda Tourism Authority

1. Communicate VRP requirements to stakeholders
2. Create visitor VRP information guides
3. Develop efficient and effective remittance process for 2.5% visitor fee
4. Provide website listings criteria

X. Appendices

Appendix A Fire Safety Standards

- Fire Inspectors recommend we use the fire safety standards in the 2014 Code as a guideline to vacation rental homeowners. Fire safety standards are found in Section 18.
- For homes that predate 1998, there are exceptions written into the document. For example, the 2014 Code calls for hardwire, interconnected smoke alarms. However there is an exception from hardwire, interconnected smoke alarms for homes that predate 1998 construction: “... *smoke alarms are not required to be interconnected unless remodeling considerations require removal of the appropriate wall and ceiling coverings to facilitate concealed interconnected wiring. A hardwired power supply with battery backup is recommended. All new construction shall be equipped with hardwired alarms.*”
- The 2014 Code offers guidance on smoke alarms, fire extinguishers, emergency escapes, garages, etc.
- If vacation owners undertook a voluntary fire safety check using the 2014 Code as the standard, it would be a proactive step that fire inspectors could support.
- If a formal licensing process was introduced fire inspectors believe the Bermuda Fire and Rescue Service can take on and manage the workload of fire safety checks without any additional resources.
- A fire safety standards process does invite the possibility a fire inspector will order a requirement beyond what is in the 2014 Code. For example, the 2014 Code requires a fire extinguisher in the kitchen, but an overly large kitchen or oddly shaped kitchen might require two extinguishers for safety reasons. Some properties might require self-closing doors because of a very long hallway. Only on-site inspections would reveal these issues.
- The Bermuda Fire and Rescue Service would require a fee for conducting an inspection. The fee would be associated with the issue of a fire certificate in relation to the Fire Safety Act 2014. For most properties the initial fee would be \$250 and \$150 per year for recertification.

Appendix B Insurance

Proper insurance coverage for VRP owners and visitors is a requirement for properties wishing to register their unit through the BTA.

According to local insurance provider the Friesenbruch Meyer Group (FMG), when homeowners provide a vacation rental, a traditional home insurance policy may not cover the following:

- Damage to your building by guest as a result of fire explosion, and other standard perils
- Liability for damage to your guest's belongings by theft, fire, flooding or any other causes
- Liability for medical and legal expenses if your guest is injured on your property and you are held legally liable
- Loss of rental income should your home become uninhabitable due to covered loss such as fire or hurricane damage

FMG further states a traditional home policy may also not cover VRP incidents based on:

- Renting your property to overseas guest multiple times a year for a rental fee is considered a "business" activity
- Business activities are not covered under the standard home insurance policy
- According to the Hotel Licensing and Control Act 1969, your property is considered a 'Hotel' if it accommodates six or more paying guest and requires a license
- Properties that accommodate five or less paying guest are currently unregulated

While the Friesenbruch Meyer Group (FMG) created the first insurance product specific to VRP, such policies may now be available through other local insurers. It is the responsibility of the VRP owner to demonstrate adequate coverage exists for their unit(s) irrespective of the carrier.