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THE SHORT-TERM RENTAL ECONOMY IN MICHIGAN

IMPLICATIONS, POLICY OPTIONS, & POTENTIAL SOLUTIONS

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The **MSUE Center for Local Government Finance and Policy (CLGFP)** at Michigan State University, located within the MSU Department of Agricultural, Food, and Resource Economics and in partnership with MSU Extension, was founded in 2015 to support communities in their efforts to efficiently deliver critical public services that promote health, safety, and well-being. The Center works to enhance decision-making for public officials in communities of all sizes through a diverse offering of training, engagement, and applied research opportunities.

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Executive Summary

The rapid expansion of the short-term rental (STR) economy presents both economic opportunities and policy challenges, requiring a careful balance between economic growth and regulation. While STR platforms such as Airbnb contribute to local tourism economies and provide additional income for property owners, they have also exacerbated housing shortages, increased rents, and raised affordability concerns. The impacts of STRs vary by region and community, differentially affecting housing markets, urban development, and local policy responses.

This report examines the trade-offs between STR expansion, housing affordability, and community well-being, with an emphasis on Michigan. While STRs generate economic activity, such as increased consumer spending and local business growth, they may also reduce the availability of long-term housing for renters and owners.

Key Findings

Prevalence & Growth: The STR market in the United States was valued at $100.8 billion in 2022 and is projected to reach $228.9 billion by 2030, with an annual growth rate of 10.8%. Michigan has seen particularly strong STR expansion in rural and waterfront communities, such as Traverse City and Frankfort.

Housing Market Impact: STRs may contribute to rising rents and home prices, especially in supply-constrained markets. The impact may be particularly significant for larger, family-sized rental units that are converted to short-term use.

Regulatory Fragmentation: Michigan lacks common requirements such as universal licensing, tax compliance standards, and data reporting obligations for STR platforms. Consistency statewide along these lines could help improve transparency, thus empowering local governments to tailor regulations and enforcement strategies based on local housing conditions and needs.

Community-Level Externalities: STRs introduce neighborhood disruptions, such as noise, parking shortages, and declining housing availability for long-term residents. STR regulations vary widely across Michigan local governments, contributing to compliance challenges.

Policy Trade-Offs: While restrictive STR policies may help stabilize housing markets, they risk reducing tourism-driven economic benefits. Regulatory strategies include zoning-based restrictions, licensing caps, occupancy limits, and tax policies that may help to mitigate negative externalities while preserving STR-related economic activity.

Introduction

The rapid expansion of the short-term rental (STR) economy presents both economic opportunities and policy challenges, requiring a careful balance between growth and regulation. While STR platforms like Airbnb and Vrbo have fueled local tourism economies and provided income opportunities for property owners and other related businesses, they have also contributed to housing shortages, rising rents, and affordability concerns. At the same time, STRs have reshaped urban and rural economies, redistributing tourism spending and supporting local businesses. For instance, Hidalgo (2024) finds that Airbnb's entry into a community significantly boosts the food and beverage industry, particularly in non-core tourist areas, suggesting that STRs can stimulate economic activity beyond traditional tourism hubs.

The STR market in the United States was valued at $100.8 billion in 2022 and is projected to reach $228.9 billion by 2030, reflecting an annual growth rate of 10.8% (Vantage Market Research, 2023). This growth is fueled by rising traveler demand for flexible accommodations, advancements in online booking systems, and the post-pandemic recovery of global tourism. However, as STRs proliferate, concerns over housing affordability, neighborhood stability, and long-term economic sustainability have intensified, particularly in housing supply-constrained markets.

Research on STR market dynamics highlights that their impacts are highly localized and vary across different housing segments. Koster et al. (2021) found that STRs increased home prices by an average of 3.6% across Los Angeles County, with particularly strong effects in high-tourism areas, such as a 15% price increase within 2.5 km of Hollywood's Walk of Fame. Similarly, Horn and Merante (2017) found that neighborhoods with higher Airbnb activity experienced more pronounced rental price increases compared to those with lower activity. The impact was especially noticeable for larger, family-sized rental units, which were more frequently withdrawn from the long-term rental market, thereby intensifying supply constraints and upward pressure on rental prices.

These findings underscore a key policy challenge: can local governments manage STR growth to capture its economic benefits while meeting their community's housing goals, particularly regarding availability and affordability? In high-density urban markets where housing supply is constrained, targeted regulations may play an important role. Strategies such as capping multiple-unit listings, adding zoning restrictions, and limiting the conversion of long-term rentals to STRs have been implemented in some cities to help moderate the impact on housing markets. In Los Angeles, the adoption of a bundle of Home Sharing Ordinances–a set of regulatory measures targeting short-term rental activity, including mandatory registration, restrictions on non-primary residences, and limits on the number of rental days–has resulted in an estimated 50 percent decline in STR listings. This regulatory intervention has also been linked to statistically significant reductions in both housing prices and rental rates (Koster et al., 2021). However, further research is needed to evaluate whether these interventions have had any unintended consequences, such as impacts on local tourism or hospitality revenue.

The sharing economy, as outlined by Davidson and Infranca (2016), describes peer-to-peer exchanges facilitated by digital platforms (such as Airbnb or Uber), allowing individuals to rent or share assets like homes or vehicles, especially in urban areas. STR platforms were able to thrive in dense environments due to proximity, information spillovers, and regulatory arbitrage. This led to a concentration of STR in many urban places and that concentration intensifies externalities, including affordability crises and displacement risks for long-term residents. While the initial growth of the sharing economy occurred in urban areas, it has since spread across the rural-urban continuum to varying degrees. The sharing economy and STRs are no longer an exclusively an urban phenomenon and communities should analyze their local STR situation and any externalities that may exist.

Michigan's STR market has experienced substantial growth, particularly in rural and waterfront communities such as Traverse City and Frankfort. This expansion is especially pronounced in tourist-oriented cities, where the demand for short-term accommodations has surged. Seasonal variation significantly influences revenues, occupancy rates, and daily rates, with summer months typically generating the highest figures across Michigan's central, west coastal, north coastal, and east coastal regions.

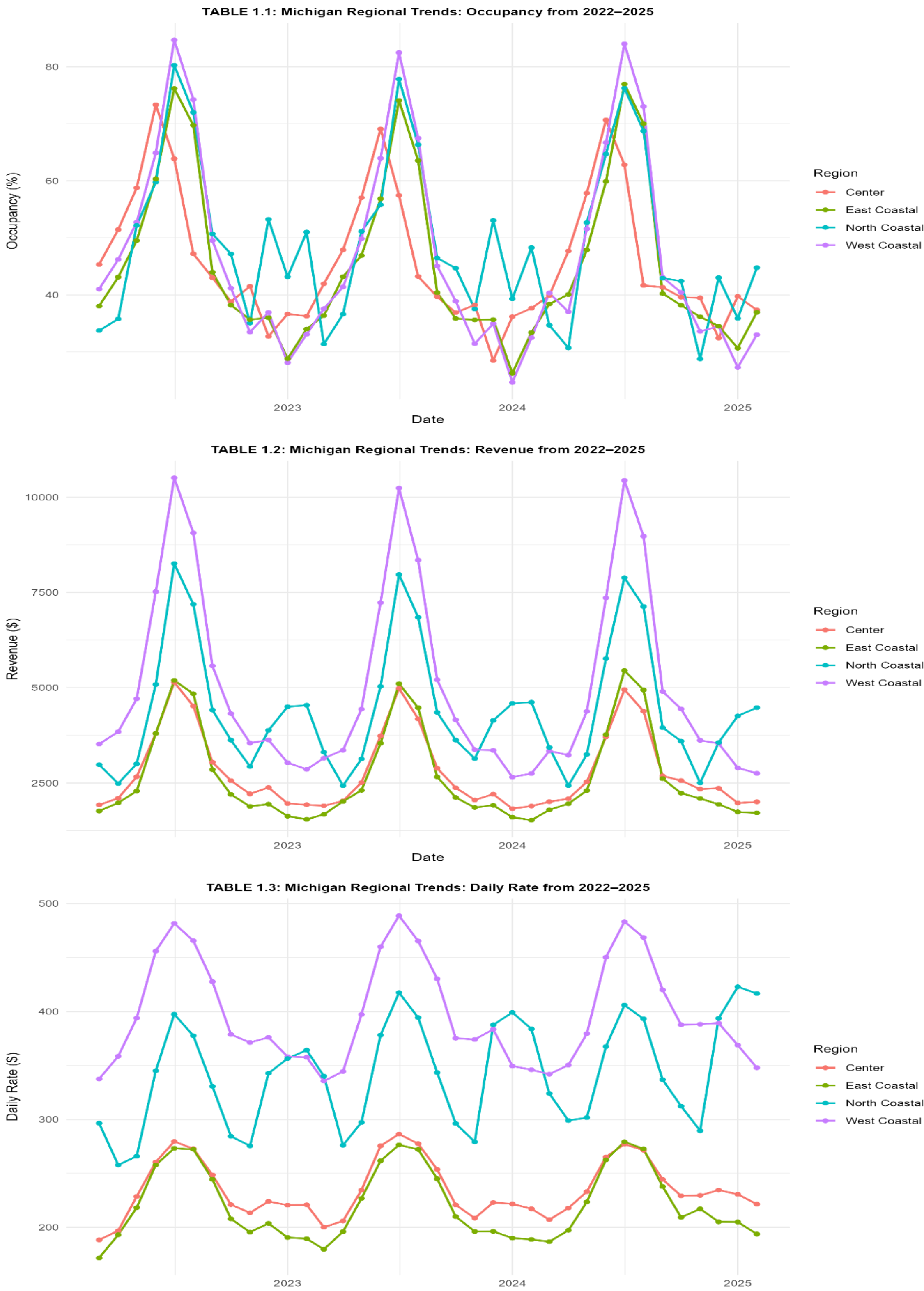

Table 1: Michigan Regional Trends: Occupancy, Revenue and Daily Rate from 2022-2025

Over 2022 and 2023, a 1% increase in population growth in feeder cities has correlated with a 2.5-3% rise in STR demand (Lane, 2024). However, despite the surge in STR supply, certain regions, such as the Grand Traverse Area, have reported declining STR revenues, suggesting potential market saturation and diminishing returns for rental operators (Thompson, 2023). These mixed outcomes highlight the ongoing policy dilemma: how can local governments harness the economic benefits of STRs while preserving housing affordability and community well-being?

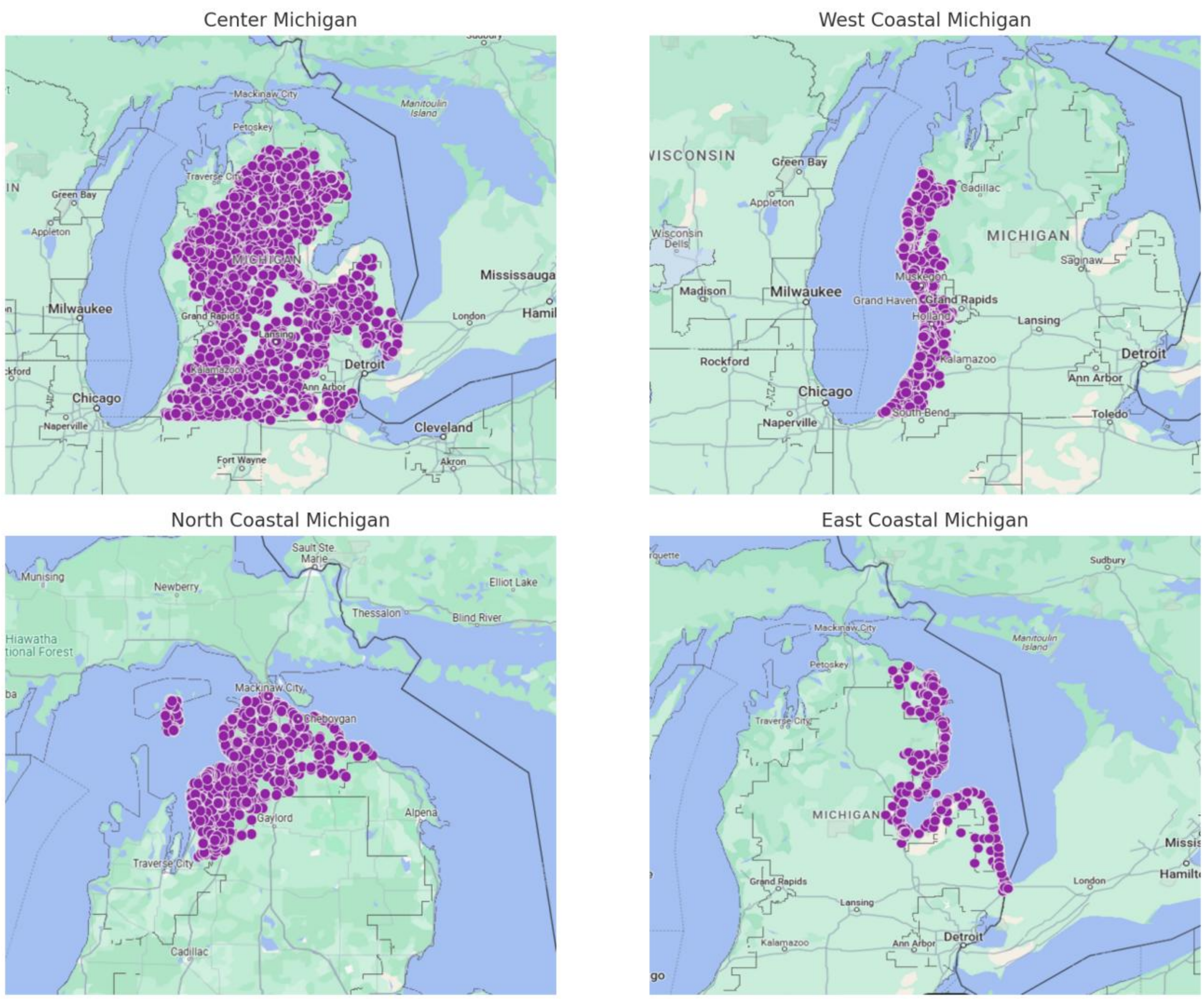

TABLE 2: Regional Concentration of STR Listings across Michigan

This report examines the trade-offs associated with the expansion of short-term rentals (STRs), focusing on their implications for housing affordability and community welfare. It further analyzes the extent to which STR proliferation exacerbates affordability constraints and explores policy instruments designed to mitigate these adverse effects. While concerns over displacement and market distortions persist, economic theory predicts STRs also generate positive benefits, including increased consumer spending, local business growth, and economic diversification, which must be considered in policy design. As STR markets continue to evolve, it is a challenge for policymakers to balance economic benefits of STRs with meeting the housing needs of long-term residents, ensuring that policies support both investment-driven growth and the needs of residents. To strike a balance between the economic benefits of STRs and meeting long-term housing needs, local policymakers are increasingly turning to zoning ordinances, permit requirements, and STR caps as tools for managing growth.

At the state level, authorities could help empower local government to better manage STR governance. While local governments have primary responsibility over zoning decisions, the state could establish common requirements such as universal licensing, tax compliance standards, and data reporting obligations for STR platforms. Consistency across the state along these lines could help improve transparency, thus empowering municipalities to tailor regulations and enforcement strategies based on local housing conditions.

Literature Review: STRs, Housing Markets, and Policy Trade-Offs

Drivers of Housing Shortages and the Role of Short-Term Rentals

Shifting from a focus on STRs in Michigan to research on STRs more generally, housing shortages stem from a combination of supply-side constraints, regulatory barriers, and demand shifts. Restrictive zoning laws, high construction costs, and declining residential mobility following the Great Recession have significantly contributed to housing supply constraints (Myers, Park, & Cho, 2023). Land-use regulations, particularly density restrictions, further limit urban housing availability (Glaeser & Gyourko, 2018), while rising labor and material costs make large-scale affordable housing development increasingly infeasible (Goodman, 2023).

Research on the cases of Los Angeles and New York emphasizes that without regulation STRs contribute to speculative investment and urban displacement (Lee, 2016; Wachsmuth & Weisler, 2018). In their look at STRs in Barcelona, Garcia-López et al. (2020) argue that the economic incentives associated with STRs encourage landlords to remove properties from the long-term rental market, further tightening housing supply and raising costs. These patterns are particularly concerning in cities where housing affordability is already strained.

Within these contexts, STR platforms exacerbate supply pressures by reallocating long-term residential units for short-term tourism use. Lee (2016) identifies the phenomenon of "hotelization" in Los Angeles, where certain multi-family housing buildings are increasingly repurposed for STRs, reducing the availability of long-term rental stock. Empirical studies reinforce this concern, showing that STR expansion leads to rising rents and home prices, particularly in cities experiencing rapid gentrification (Wachsmuth & Weisler, 2018). Garcia-López et al. (2020) quantify this effect in

Barcelona, finding that a 1% increase in Airbnb listings correlates with a 0.25% rise in home prices and a 0.5% increase in rents.

Beyond affordability concerns, STRs distort traditional rental markets by reducing the stock of long-term housing. Zou (2020) finds that neighborhoods with high STR penetration, particularly in high-tourism and minority-concentrated areas, experience disproportionate reductions in long-term rental stock. Horn and Merante (2017) report similar effects in Boston, where the highest-density STR neighborhoods saw rents increase by up to 3.1%, adding $93 to monthly rental costs. These findings, while focused in particular markets and contexts, suggest that while STRs create revenue streams for property owners, they also impose negative externalities on long-term renters by reducing supply and intensifying affordability crises.

Trade-Offs in Housing Policy and STR Regulation

The expansion of STRs presents a fundamental policy trade-off: while they generate economic benefits through increased tourism revenue and income for property owners, they simultaneously exacerbate housing shortages in high-demand areas. This tension has fueled debates on regulatory interventions to mitigate STR-induced housing market distortions.

A critical issue for local policy makers is the degree to which increased STRs translate to local economic benefit, which depends partly on where the owner of property lives. Increased use of property translates to increased spending by visitors, which in turn contributes to the local economy. In addition, if the property is owned locally, rental dollars also have a positive economic effect. However, if STR property is owned by a corporation or an individual who resides outside of the community, then rental profits flow out of the community and thus the local economic benefit is smaller.

A key regulatory challenge, and area of trade-off is enforcement. As STRs operate in a digital and decentralized market, traditional housing regulations struggle to effectively monitor compliance. Zou (2020) highlights additional legal complexities, noting that property owners frequently challenge STR restrictions under property rights arguments, making regulatory enforcement highly contested.

STR regulation is further complicated by spatial clustering patterns. Quattrone et al. (2018) find that despite differences across U.S. cities, STR activity consistently concentrates in urban cores, tourism hubs, and creative-class neighborhoods, reinforcing supply constraints in high-demand areas. The geographic concentration of STRs amplifies affordability pressures and displacement risks, particularly in already supply-constrained housing markets.

Community-Level Impacts and Zoning Challenges

Beyond direct housing market effects, STR expansion introduces a range of community-level externalities, including neighborhood disruptions, noise complaints, parking shortages, and shifting housing availability. These issues create tensions between STR operators and long-term residents, particularly in municipalities where housing supply is already constrained. The fragmented regulatory landscape across Michigan further complicates enforcement

Community-Level Externalities and Housing Affordability Pressures

In Michigan, STR proliferation affects communities in diverse and disproportionate ways, with distinct impacts in high-tourism cities, urban neighborhoods, and rural waterfront areas. In tourism-driven municipalities, STR activity has surged in response to high visitor demand, incentivizing property owners to convert long-term rental units into short-term vacation stays. Traverse City and Frankfort, for instance, have experienced 24% growth in STR listings over the past two years (French, 2023). However, signs of market saturation have emerged, as evidenced by declining STR revenues in the Grand Traverse Region, suggesting that increased STR supply may be outpacing demand (Thompson, 2023). The economic benefits of STR expansion in these areas must be weighed against the affordability challenges for local renters, particularly seasonal and service-sector workers who face rising housing costs and reduced availability.

Zoning and Enforcement Challenges

Some jurisdictions have adopted nominal bans on STRs but lack the administrative capacity (or the political will) to monitor or enforce them. This disconnect has created a "gray market" in which unauthorized STRs continue to operate with little oversight. For example, certain townships do not explicitly list STRs as an allowable use in residential zoning districts but also lack the resources to investigate or penalize violations, allowing unregulated activity to persist. In addition, it is also unclear how properties being used STRs should be taxed. If a property is owner-occupied, it is classified as a homestead property and therefore receives a lower property tax rate. If a municipality wants to monitor the property to apply the non-homestead rate for days in use as a STR, does it have the authority, data, or capacity to enforce that? These are important questions to consider in developing STR policy.

Vague or ambiguous zoning language leaves substantial room for interpretation, which STR operators often exploit. In Reaume v. Township of Spring Lake (MSC, 2020), the court upheld local efforts to restrict STRs in low-density residential zones, ruling that short-term rentals lacked the "continuity of residence" associated with traditional residential use. Similarly, in People v. Dorr (COA, 2020), the Michigan Court of Appeals affirmed that STRs were not permitted under a city's residential zoning ordinance and upheld enforcement actions taken against an STR operator. These cases underscore the legal risks created when STRs are not clearly defined or regulated within local zoning frameworks. The lack of legal clarity has led to inconsistent enforcement, as local officials struggle to determine whether and how STR activity should be classified and controlled.

Overlapping layers of governance, particularly the interaction between municipal ordinances and private legal instruments such as homeowners' association covenants and deed restrictions, further complicate the regulatory environment. In some instances, HOAs have banned STRs entirely, even as local governments permit them. This misalignment, as illustrated in Apache Hills Property Owners Association, Inc. v. Sears Nichols Cottages, LLC (2022), fragments enforcement authority and makes it difficult to implement a coherent policy response across jurisdictions and governance levels.

The challenge of STR enforcement is further exacerbated by a lack of data transparency. Many local governments struggle to accurately track STR activity, as platforms like Airbnb and Vrbo often withhold rental data, citing privacy concerns (Quattrone et al., 2018). Without real-time access to STR listings, cities are unable to effectively monitor compliance with rental duration limits, occupancy restrictions, or permit requirements. Some municipalities have responded by adopting STR compliance software, such as Granicus (Host Compliance) and GovOS, which use automated tracking systems to identify and flag unlicensed STR activity. However, high implementation costs and limited enforcement personnel remain key obstacles, particularly in smaller municipalities with fewer financial resources.

Policy Interventions: Balancing STR Growth and Housing Stability

Given the complex interplay between STR expansion, housing affordability, and regulatory enforcement, Michigan municipalities have adopted a range of policy strategies to balance STR-driven economic benefits with long-term housing stability.

Zoning-Based Regulations

Some scholars advocate geographically targeted zoning regulations to limit STR density in residential areas with high displacement risks (Lee, 2016; Horn & Merante, 2017). For example, New Buffalo Township's zoning ordinance specifies that STRs are only permitted within designated zoning districts and subject to conditional approvals, helping to concentrate STR activity in areas with fewer residential conflicts (New Buffalo Township, 2021). Similarly, Grand Haven Charter Township has implemented STR overlay districts that constrain STR operations to designated zones to mitigate externalities on long-term residents.

Cap-and-Attrition Models

Some municipalities have adopted STR permit caps to control the scale of STR activity while allowing existing operators to phase out over time. East Bay Charter Township, for instance, has capped STR licenses at 145 units (2.5% of total housing stock) and is gradually reducing permits through attrition rather than implementing an outright ban.

Financial Incentives and Disincentives

To lower the displacement pressures associated with STRs, Zou (2020) suggests that property tax incentives targeting landlords can increase the supply of long-term rentals by reducing the relative return of STR conversions. Garcia-López et al. (2020) provide complementary evidence from Barcelona, showing that increased taxation on STR income dampens large-scale investor activity. In principle, imposing differential taxes on short-term and long-term rentals could help address the challenge. However, Michigan property tax laws limit ability of local governments to impose such differential taxes.

In parallel, local governments have explored deed-restriction programs as a market-based alternative. These programs offer financial compensation in exchange for legally binding limitations on how a property may be used–typically requiring full-time residential occupancy. The InDEED program in Vail, Colorado, exemplifies this approach: rather than capping income or resale value, it preserves housing for local workers by purchasing permanent deed restrictions on existing homes (Town of Vail, 2024). Such interventions operate outside the formal tax system and may offer a politically feasible path forward for municipalities seeking to preserve long-term housing without enacting outright bans on STRs.

Data Transparency and Enforcement Measures

A major barrier to STR regulation is the lack of accessible data on rental listings, limiting the ability of municipalities to monitor illegal listings and enforce compliance. Quattrone et al. (2018) emphasize the need for data-sharing agreements between STR platforms and local governments, enabling municipalities to identify unregistered STR operators and ensure enforcement parity. However, previous efforts to introduce such agreements have faced resistance from STR platforms, which have cited concerns over data privacy and competitive market dynamics.

Statewide Coordination and Legislative Proposals

While data transparency and enforcement measures are critical for effective STR regulation, the fragmented nature of governance across Michigan has further complicated the regulatory landscape, prompting calls for statewide coordination and legislative action. A key development in this regard was proposed in legislation in the 2023-24 legislative session in Michigan House Bills 5437 through 5446, which sought to establish baseline regulations for STRs while preserving local zoning authority. Before they expired at the end of the last legislative session, the bill proposed a statewide licensing framework to standardize safety and operational requirements, while allowing municipalities to impose additional restrictions, such as caps on STRs in residential areas. This approach aimed to balance state-level oversight with local flexibility, addressing concerns over regulatory arbitrage and housing affordability. As of this writing, the bill has not been reintroduced in the 2025-26 legislative session. These legislative efforts underscore the ongoing tension between state and local governance, emphasizing the need for a balanced approach that integrates economic incentives, data-driven enforcement, local control, and community-specific housing needs.

The Problem: Scope and Scale across Michigan

Local Regulatory Landscape

Michigan lacks a unified statewide regulatory framework for STRs, leaving local governments responsible for defining, managing, and enforcing policies. Many local governments require STR operators to register their properties and obtain permits, ensuring compliance with safety standards and occupancy limits. Others differentiate between owner-occupied and non-owner-occupied STRs, often placing stricter regulations on the latter to mitigate potential disruptions to residential neighborhoods.

For example, Clay Township requires all STR operators to register their properties and provide proof of insurance, ensuring that rentals meet minimum safety and occupancy standards. Similarly, Ann Arbor has adopted one of the more comprehensive STR regulatory frameworks in the state, requiring all operators to obtain a license and prohibiting non-owner-occupied STRs in most residential zones. These measures reflect growing concerns that unchecked STR expansion could reduce the availability of long-term rental housing, increase property values, and displace lower-income residents. However, the lack of consistency across Michigan's municipalities complicates enforcement, as differing regulations between jurisdictions create opportunities for multi-property STR operators to shift operations to areas with less restrictive rules.

The increasing presence of STRs has led to significant shifts in certain housing sub-markets within Michigan, with residential properties being converted into STRs. This trend has exacerbated housing shortages, particularly in areas with high tourism demand, as fewer homes remain available for long-term residents.

In Detroit, there are approximately 1,200 active STR listings, marking a 7% increase over the past year (Airbtics, 2024). Many of these rentals are concentrated in high-demand neighborhoods such as downtown and midtown, where housing prices and rental rates have steadily risen. Similarly, in Traverse City, STR supply increased 13.4 percent between July 2023 and July 2024 and demand for STRs also jumped, by 9.1 percent (Kobs and Travis, 2025). In Detroit, there are approximately 1,200 active STR listings, marking a 7% increase over the past year (Airbtics, 2024). Many of these rentals are concentrated in high-demand neighborhoods such as downtown and midtown, where housing prices and rental rates have steadily risen. Against the backdrop of COVID-19 recovery, rising concerns over nationwide housing unaffordability and insecurity add urgency to our state's housing discourse.

Case Studies: Local Policy Responses to STRs in Michigan (Michigan State University Extension, 2024).

Michigan municipalities have taken varied approaches to regulating STRs, reflecting local housing goals, market conditions, tourism dependence, and enforcement capacity. Some cities have implemented strict zoning laws and licensing caps, while others have adopted more flexible regulations to balance economic benefits with housing concerns.

In response to high tourism demand and the growing presence of STRs, waterfront communities like East Bay Charter Township and Grand Haven Charter Township have implemented targeted regulatory measures to balance economic benefits with community stability. East Bay Charter Township, located along the shores of Grand Traverse Bay, has introduced a licensing cap of 145 STRs, limiting them to 2.5% of the total housing stock to prevent excessive investor-driven expansion. To gradually reduce STR numbers, new licenses are issued only when existing ones fall below this threshold. STR transfers are restricted to immediate family members, discouraging speculative ownership, and rentals must maintain a 1,000-foot separation distance to prevent neighborhood clustering. Additionally, mandatory septic inspections every three years ensure compliance with environmental and health regulations, reflecting concerns over water quality in this high-tourism, waterfront community.

In Grand Haven Charter Township, situated along Lake Michigan, officials have designated STR Overlay Zones, restricting STRs to predefined areas. This zoning strategy protects the residential character of neighborhoods while still accommodating tourism demand. By concentrating STRs in designated areas, the township seeks to preserve local economic benefits from tourism without disrupting long-term community cohesion.

St. Ignace, a key gateway to Michigan's Upper Peninsula and a popular waterfront destination, has adopted a two-category system for STRs to balance tourism-driven rental demand with residential stability. Category 1 includes owner-occupied rentals, such as bed & breakfasts and multi-unit properties with a primary resident. These are permitted but capped at 50 STRs in residential zones, with a limit of three permits per owner to prevent investor-driven market concentration. Category 2, which consists of non-owner-occupied STRs, is prohibited in residential areas but remains unrestricted in commercial districts. This policy aims to protect long-term housing availability while ensuring flexibility for business owners operating in the tourism sector.

St. Joseph, a Lake Michigan shoreline city with a strong tourism economy, integrates STRs into its broader lodging accommodations framework while enforcing zoning-based restrictions to preserve neighborhood stability. STRs are permitted in commercial and mixed-use zones, but special approval is required in designated residential areas to maintain community character. To accommodate seasonal tourism and special events, temporary STR permits are available, ensuring short-term flexibility without exacerbating long-term housing shortages.

In New Buffalo, a Lake Michigan resort town, STRs are allowed only in commercial zones, restricting their presence in residential areas to minimize neighborhood disruptions. The city enforces strict occupancy limits, capping rentals at 14 people per unit, with a maximum of two occupants per bedroom to prevent overuse of rental properties. Nonconforming STRs, which existed before the implementation of current regulations, may continue operating but cannot be modified, transferred, or demolished without losing their STR status. Additionally, the city enforces visitor guidelines on noise, trash disposal, and neighbor relations, ensuring that tourism-driven rentals do not negatively impact local residents.

Marquette, a Lake Superior waterfront city known for outdoor tourism, has taken a density-based approach to STR regulation to prevent over-concentration while accommodating visitor demand. STR density is regulated based on block size, with small blocks (under 500 feet) restricted to one STR per block face, while larger blocks (500+ feet) may have up to two STRs. This strategy balances tourism needs with residential concerns, allowing for some rental activity while preventing the excessive clustering of STRs in residential areas.

These examples illustrate the diverse regulatory approaches Michigan communities have adopted to manage STR growth. Cities with high tourism dependence, such as New Buffalo and Grand Haven, have implemented zoning and licensing strategies that accommodate STRs while mitigating their impact on residential neighborhoods. Meanwhile, St. Ignace, a tourist gateway, has taken a restrictive approach to balance tourism with long-term housing availability.

In contrast, Ann Arbor, a university-driven city, regulates STRs with a focus on protecting residential housing stock from speculative investment, given the already high demand for long-term rentals among students and faculty. The fragmented nature of STR governance in Michigan underscores the challenge of balancing economic incentives with housing stability, making localized solutions essential for sustainable community development across different types of municipalities.

Recognizing the administrative and enforcement challenges associated with STR regulation, Michigan communities have also invested in STR compliance software to monitor activity, track violations, and streamline licensing. Some cities, particularly in high-tourism areas, have explored innovative approaches such as temporary permits for special events and restrictions based on property structure type (e.g., glamping sites, multi-unit buildings, or single-room rentals).

These diverse regulatory efforts highlight Michigan's localized approach to STR governance, ensuring that economic benefits are balanced with housing stability and community well-being. While restrictive policies help curb STR-induced displacement, they require strong enforcement mechanisms to be effective. At the same time, overly permissive environments may exacerbate affordability challenges, underscoring the need for adaptive and context-specific solutions to maintain sustainable growth in Michigan's housing market.

Conclusion: Balancing Economic Growth with Housing Stability

While STRs contribute to the economy by boosting tourism, generating supplemental income for STR owners, and supporting local businesses, their widespread growth has also been linked to rising rental prices, reduced housing supply for long-term residents, and increased market volatility. At the community level, residents have expressed concerns about the erosion of neighborhood stability, reduced social trust and increased noise complaints, particularly in areas with high STR turnover.

Despite these challenges, Michigan communities have adopted a range of regulatory strategies to address the impact of STRs while maintaining their economic benefits. Cities like Ann Arbor and Ferndale require STR operators to obtain licenses and undergo inspections, ensuring compliance with zoning laws and safety requirements. Traverse City mandates annual licensing and fire inspections, and limits STRs to designated zoning districts. New Buffalo restricts STRs to commercial zones and enforces strict occupancy limits to mitigate residential disruptions. Several municipalities, including East Bay Charter Township and Grand Haven Charter Township, have implemented density restrictions and STR overlay zones, preventing the oversaturation of STRs in residential neighborhoods.

Michigan's approach to STR governance underscores the need for a more coordinated and data-driven policy framework that ensures housing affordability while sustaining tourism-related economic activity. Local decisionmakers could benefit from the implementation of statewide registration requirements, clear licensing standards, and data-sharing agreements with STR platforms to enhance locally-specified compliance and enforcement. At the local level. Some communities could adopt financial incentives to incentivize long-term rental availability, such as property tax reductions for landlords who prioritize long-term leases over STR conversions. Redirecting a portion of STR tax revenues toward affordable housing initiatives could further offset the affordability challenges exacerbated by STR expansion.

To ensure the long-term effectiveness of STR policies, continuous evaluation is necessary. Incorporating high-resolution housing market data would allow policymakers to analyze the specific impact of STRs on affordability and displacement trends, while longitudinal studies on zoning and tax policies could help determine which strategies are most effective in mitigating housing market pressures. Additionally, assessing the broader economic trade-offs of STR regulations—including the effects on local tourism, small businesses, and municipal revenues–would provide valuable insights into optimizing STR governance.

Moving forward, Michigan must adopt a balanced regulatory approach that safeguards housing stability without stifling the economic opportunities that STRs provide. By implementing targeted zoning interventions, enhanced enforcement mechanisms, and financial incentives for long-term rentals, policymakers can foster a sustainable and equitable STR market. As housing affordability concerns continue to evolve, Michigan must take proactive measures to ensure that STR growth aligns with long-term community and economic development goals, maintaining a housing market that remains both dynamic and inclusive.

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