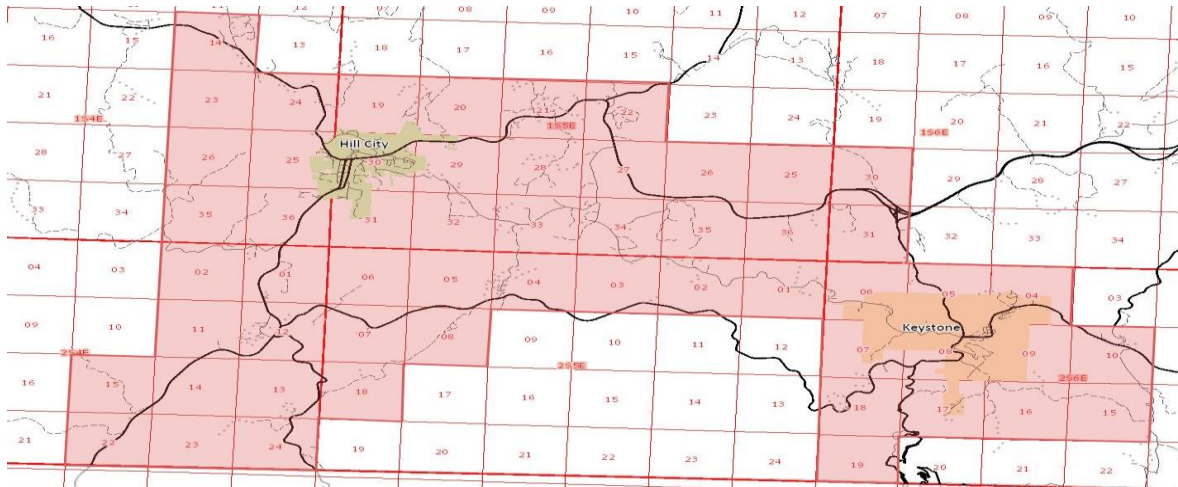


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## *Impact of Vacation Rental Sales Prices on the Market*

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In July 2023, the Equalization Office conducted a study to analyze if the sale of vacation rental homes impacted the market for owner occupied homes and the assessment of properties in the county. The study was prompted by concerns from citizens of the county. The study was centered on the Hill City to Keystone area in west central Pennington County. This research area had the greatest amount of available data. The following map highlights the areas which sales were taken from.

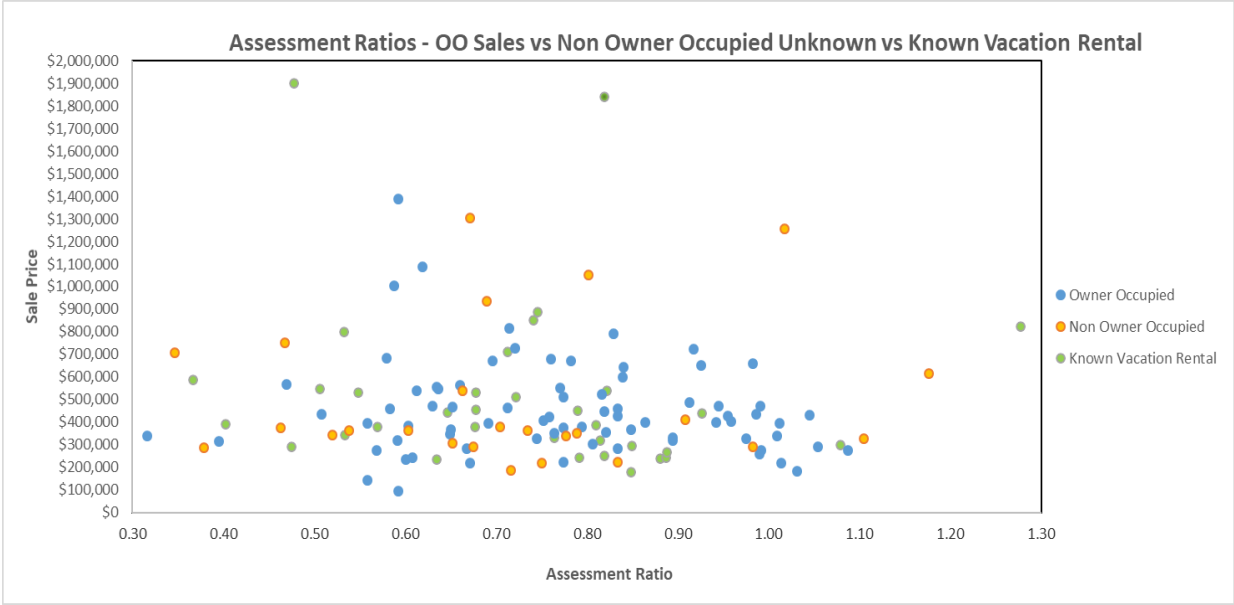


The dates of the sales used fall into a time period of December 10, 2019 thru June 1, 2023. Sales studied were all single family residential homes. All sales used in the analysis were valid, open market transactions. Sales were further researched to determine if the current use was as an owner occupied residence, a non-owner occupied vacation rental, or non-owner occupied use unknown. Those sales were researched using vacation rental web sites and Pennington County property record information. An analysis of this undertaking is laborious and only representative at the point in time when the information is gathered. Key data points such as the owner occupancy classification of a property, the owners current intended use of the property, and the magnitude of marketing available to list a home for rent, can undermine the analysis.

The analysis included 136 sales. Sales were analyzed as an entire group and broken down into three categories: owner occupied (OO Sales), non-owner occupied – unknown (Non OO Unknown), and non-owner occupied – known vacation rental (Known Vacation Rentals). The owner occupied group had the most sales at 76, followed by the known vacation rental group at 34. The non-owner occupied unknown group had 26 sales. The median sale price for each of the groups was calculated. Then a percentage difference between those medians was found. The median sale price for All Sales is \$385,000, with the median of each group falling within close range of that median. See the following chart:

	All Sales	OO Sales	Non OO Unknown	Known Vacation Rentals
<b>Median Sale Price</b>	\$385,000	\$388,950	\$360,483	\$402,500
<b>Deviation from Median All Sales</b>		1.0%	-6.4%	4.5%
<b>Quality (most common)</b>	average	average	average	average
<b>Year Built</b>	1996	1985	1981	2001
<b>Acres</b>	1.21	1.21	2.65	0.65

With over half the sales found in the OO Sales group, the median closely mirrors All Sales. The median of the Known Vacation Rentals is 4.5% higher than All Sales and 3.5% higher than OO Sales. This could suggest a slight increase in the sale prices of Known Vacation Rentals. However, other significant property characteristics need to be considered. The build years of the homes range from 1885 to 2021 and a similar range of years was found in all three groups. The median year built of the Known Vacation Rentals is 16 years newer than the OO Sales group and 20 years newer than the Non OO Unknown group. This difference in median build years could be a compounding variable. Typically, if all other property features are the same, a newer house will sell for a greater price. The most prevalent quality of construction ranking is average, closely followed by good. All three groups contained a full range of construction quality from fair to very good with a limited number of low and excellent. Land acreage varied in size range and had similar distribution between the groups. It is interesting to note that in general the lots for the vacation rentals tend to be smaller, indicating land is probably not a driving force in purchasing vacation rentals. It is also noted that all three groups have outlier sales, or high dollar sales (>\$1,000,000). The presence of high dollar sales did not impact analysis. The sales and their prices for each group are plotted below:

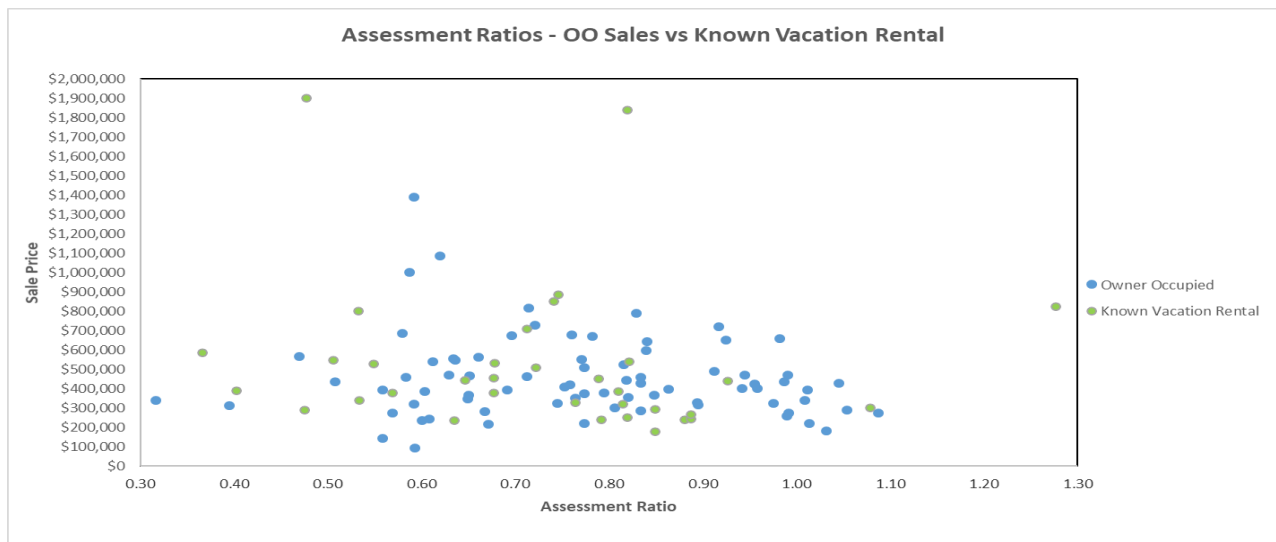


A sales ratio study was conducted to research relevant statistics of the sales. Sales ratio studies examine the relationship between assessed values and sale prices. Sales ratio studies are used to test the level of accuracy in annual assessments. The following statistical data was produced:

	All Sales	OO Sales	Non OO Unknown	Known Vacation Rentals
Mean	75.0	77.0	71.9	72.7
Median	75.6	77.4	70.4	74.3
COD	19.6	18.2	23.2	19.5
# of Sales	136	76	26	34

The most relevant measure of central tendency for mass appraisal is the median. Tracking the median sales ratio allows Equalization to compare the level of assessment within different groups of properties. Comparison of the median ratios show the numbers for each of the groups within close range of each other. The median ratio for OO Sales is a slightly higher than the Known Rental group by 3.1%. The greatest spread between median ratios is found between the Non OO Unknown group and the OO Sales at sales at -7.0%. The 3.1% spread between Known Vacation Rentals and OO Sales could indicate a deviation in sale prices between the two groups. This median, once again, is likely impacted by the build year. The mean is calculated to check if the outlier sales have an impact the analysis. The mean and the medians are very similar with the Non OO and Known groups showing only a slight difference. The coefficient of dispersion (COD) is a measure of the spread or range in the sale prices of the group. The COD on all groups is a bit high, but not out of range for the technical standards for non-homogenous properties. In the preceding scatter diagram the individual ratios of each group were plotted for comparison.

The following scatter diagram narrows the analysis between OO Sales and Known Vacation Rentals. The indicated trend is underassessment of high dollar parcels in both groups. Also, higher {and lower} quality of construction is known to show greater dispersion in ratios than average to good ranges of quality. The array shows a reduction of Known Rentals sales falling in the .90 to 1.10 ratio range. Once again, this may be due to the build year of the structures or the desire to own a vacation rental.



In this analysis the number of sales is significant enough to develop and support assessments. The number of sales in each group is acceptable and produces relevant results. However, more information would create a more accurate analysis. Indications of the impact of Known Vacation Rental sales on the data are speculative. It is more likely the impact is from the sales of newer homes. More data would further improve the analysis, but data is scattered and collection is laborious. Data utilized in

this report is reflective of the properties current use. The use of any property is subject to change at the discretion of the owner or with a change in ownership. Multiple variables such as quality of construction, condition of structures, income streams, acreages, landscaping, covenants, and buyer preferences may also have significant impact on sales and assessment ratios. There is not enough data to definitively state Known Vacation Rentals sell for more or have a discernable impact on the greater market.

An added benefit to the performing this analysis was consideration of the owner occupied and non-owner occupied status of each parcel. Based on the research thirteen parcels are being reviewed for the classification's accuracy.