

# Planning & Economic Development Committee

## Vacation Dwelling Unit (VDU) Standards Changes

September 23, 2021

# Discussion Topics

- Short History of Vacation Dwellings in Duluth
- Location of Vacation Dwellings in Duluth
- Proposed Changes to Vacation Dwellings
  - Number of Total Vacation Dwellings
  - Standards for Vacation Dwellings, Accessory Vacation Dwellings, Home Shares
  - New Vacation Dwelling Option (Vacation Dwelling, Limited)
- What is NOT PROPOSED to change
- Next Steps



# CITY OF DULUTH

DEPARTMENT OF PLANNING & CONSTRUCTION SERVICES  
Planning Division  
411 W 1<sup>st</sup> St., Rm 208 □ Duluth, Minnesota 55802-1197  
Phone: 218/730-5580 Fax: 218/723-3559

Keith A. Hamre, Director  
[khamre@duluthmn.gov](mailto:khamre@duluthmn.gov)

**DATE:** December 12, 2017

**TO:** Planning Commission

**FROM:** Keith Hamre, Director

**RE:** Discussion items for cap on Vacation Dwelling Unit permits

## Summary

The City Council amended the Planning Commission's recommendations on Vacation Dwelling Units (VDUs) in the Unified Development Chapter (UDC) in section 50.37-10 B.3, by adding a cap number of 60 Interim Use permits for Vacation Dwelling Units. The number of permits issued in May of 2016 was 28, so the cap number was set at sixty through Ordinance #10451. The map attached shows the distribution of VDUs in Duluth with about 25% being located on Park Point. It was originally thought that most of these would be located in or near the tourist area of Duluth, but the distribution throughout the City has been interesting.

As this accommodation type has come in to Duluth's market, the new product has been somewhat successful, but may have an impact upon available housing stock, yet it has led to investment in older housing stock to meet the demand. Currently, there are no reports or research studies on "what is a healthy market mix for VDUs?". The research is void of market impact analysis on local housing supplies for traditional uses, but the current market trends have shown this accommodation type is the largest growth in the accommodation's market at 10-11% per year. (source: Market Research reports.com)

## Analysis

The healthy rental market indicators are vacancy rates. A vacancy rate of 5% is considered a healthy market for demand and supply to control rents and yet maintain a healthy mix of product types. Whereas, current trends for homeownership and rental mix is trending between 55 – 60% homeownership in markets the size of Duluth. There is no supply vs. demand study for VDUs. Each community is determining their approach to regulating and controlling the product quality.

A market based approach to the cap may be the most appropriate way to systematically meet both demand and neighborhood concerns. Recommending an annual increase based upon a market growth trend would lean towards having the market determining the viability of the product and supply.

## Conclusion

Staff recommends the following market based approach, instead of doubling the cap, have an automatic cap increase of 10% for the next five years. The cap is at 60 today, allow 6 new VDUs for a total of 66 in 2018. Then in 2019 allow 7 more for a total of 73 VDUs and so on.

## 2013 adoption

- Interim use because it's a newer concept
- Anticipated that use would be transitional – retirees, people new to Duluth – but units would move around the community. 3 year time limit

## 2015/16 process

- Separate VDU from Accessory Home Share
- Set minimum night stay at 2 nights
- Set duration at 6 years

## 2017 evaluation and process

- See map - 25% being located on Park Point
- Originally thought that most of these would be located in or near the tourist area of Duluth – broader impact

## 2020 reevaluation process

- Considered options to increase cap from 60
- Evaluated expanding options for accessory dwelling units



Year	Ordinance/file #	Purpose	Status
2012 – Dec	Ord 10192	Created Vacation Dwellings and Accessory Vacation Dwellings	Adopted
2013 – June	Ord 10225	Reduced the Required Minimum Night Stay	Adopted
2015 – June	Ord 10390	12 Month Moratorium on New Units	Adopted
2016 – April	Ord 10446	Further Reduced the Required Minimum Night Stay, Added Additional Standards, Created Accessory Home Shares	Adopted
2016 – June	Ord 10451	Set Permit Limit at 60	Adopted
2016 – June	Ord 10451 Amendment	200 Foot Setback from Other Vacation Rental to Reduce Density	Failed
2016 – June	Ord 10451 Amendment	Set Permit Limit at 75	Failed
2017 – July	Ord 10514	Standards for Vacation Dwellings in Multi-Unit Structures (9 Or More)	Adopted
2018 – April	Ord 18-015-O	Set Permit Limit at .5% of Owner Occupied Housing Units	Failed
2018 – April	Ord 18-016-O	Set Limits on the Number of Vacation Dwellings that One Person Can Own	Failed
2019 – June	Ord 10625	Exempt Vacation Dwellings in Form Districts to the 60 Cap	Adopted
2020 - March	Ord 20-022-O	Amend Definitions in Chapter 29 (Hotels/motels) of City Code	Adopted
2020 – May	Ord 10698	Clarified that Permits Can Not Be Sold or Given Away	Adopted
2020 – May	Ord 10698 Amendment	Allow Accessory Home Shares in Duplex or Twinhome Unit or Attached ADU	Failed
2020 – May	Ord 10698 Amendment	Set Permit Limit to Increase 10% a year	Failed

# BY THE NUMBERS

**70** current & active VDUs (as of Feb 2021)

**53** subject to cap of 60 total VDUs

**17** in Form Districts

**13** applicants waiting to apply for a VDU

**2 to 29** day rental period for any given VDU (one night not permitted)

**51** current & active Accessory Home Share (AHS) permits – owner must be home!

**5** applications for AHS pending – all over-the-counter

**1 to 29** day rental period for any given AHS



# Concerns & benefits

Concerns regarding availability of units for affordable housing

- Types of conversions:
  - Owner-occupied
  - Rental conversion
  - Office/commercial conversion
  - Blight/condemned restoration



Reinvestment in downtown and highly urbanized areas

Building re-use / reinvestment

Nearby comparisons – reference cities (with similar tourism draw)

- **Two Harbors:** 1,857 total housing units; over-the-counter permit in coordination with Lake County
- **Silver Bay:** 1,041 total housing units; prohibit VDUs (no enforcement data available)
- **Grand Marais:** 887 total housing units; permits by Cook County; no metrics available

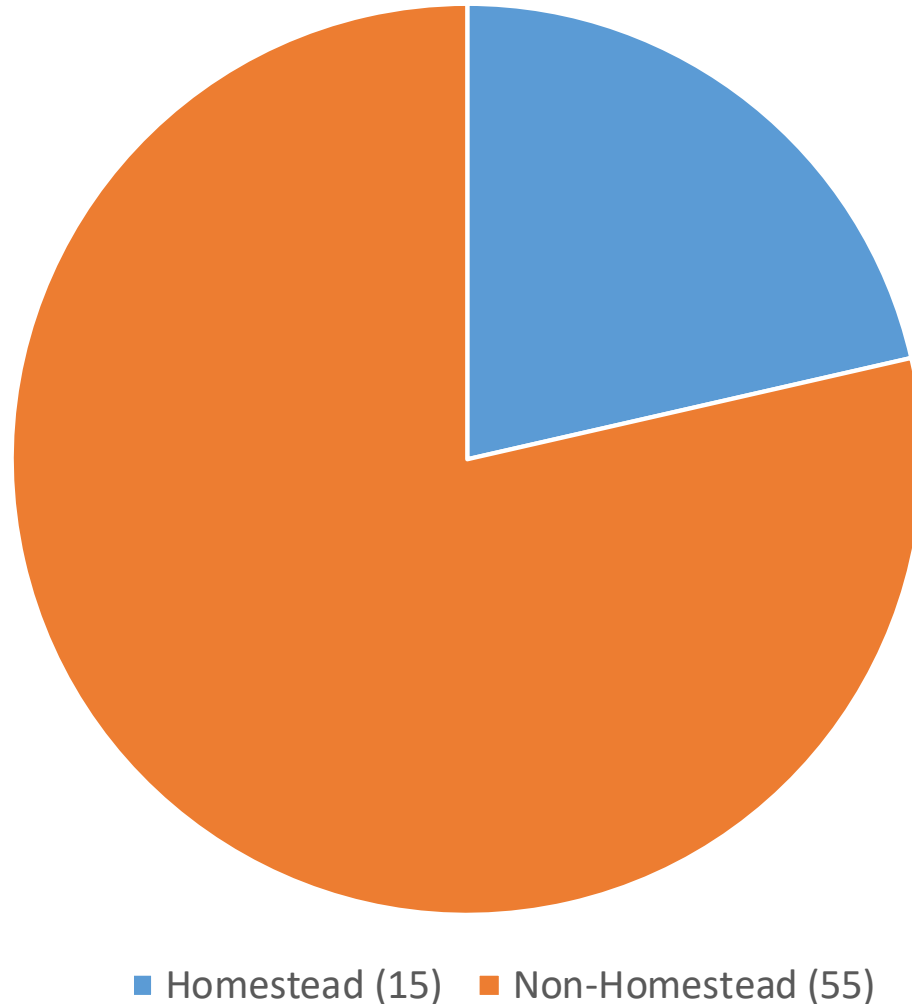
# Housing snapshot

In 2019:

- 38,485 housing units city-wide
  - 2019: 34 units demolished, 527 new units applied for/under construction: net gain of 493 units
- 36,039 total households in Duluth (2019 data)
  - 21,727 owner occupied
  - 14,312 renter occupied
  - 6.3% of all units are potentially vacant (2,446 units)
- Why are there 2,446 potentially vacant units?
  - Condemned for habitation (184 units today – typically, owner occupied units; 35 have restoration agreements)
  - Foreclosures (33 in 2019 – owner occupied units)
  - Apartment vacancy rate (2.6% in 2019 – or 372 units)
  - Owner occupied sales (1,341 sales in 2019 – or 6.1% of all owner occupied houses)
  - Vacant or in transition (i.e. deaths, remodel to sell, fires, etc. - not expressly tracked)



# Homestead Vs. Non-Homestead VDU (Feb 21)



Homestead is a classification of property that is occupied by an owner or relative of the owner, and is used as a primary place of residence.

The State of Minnesota maintains the homestead program for residents who own and occupy their home or have a qualifying relative who occupies the home. It reduces the taxable market value of the property, which in turn may lower taxes.



# Types of lodging / rental properties

## Long term rental / lease:

- Over-the-counter; rental license required
- Greater than 30 days

## Short term Vacation Dwelling Unit (VDU):

- Interim Use Permit (PC/CC); hotel/motel inspection required; limit of 60 outside form districts
- Between 2 and 29 days
- If in a multi-family structure, front desk and HOA approval is required

## Accessory Home Share (AHS):

- Over-the-counter; hotel/motel inspection required;
- Between 1 and 29 days; owner must be present

## Bed & Breakfast:

- Special Use Permit (PC); site must be at least 0.6 acres; hotel/motel inspection required
- Between 1 and 21 days; no more than 12 units

## Hotel/Hostel:

- Special Use Permit, Planning Review, or Permitted (PC); hotel/motel inspection required
- Minimum of 5 units; must have “front desk”



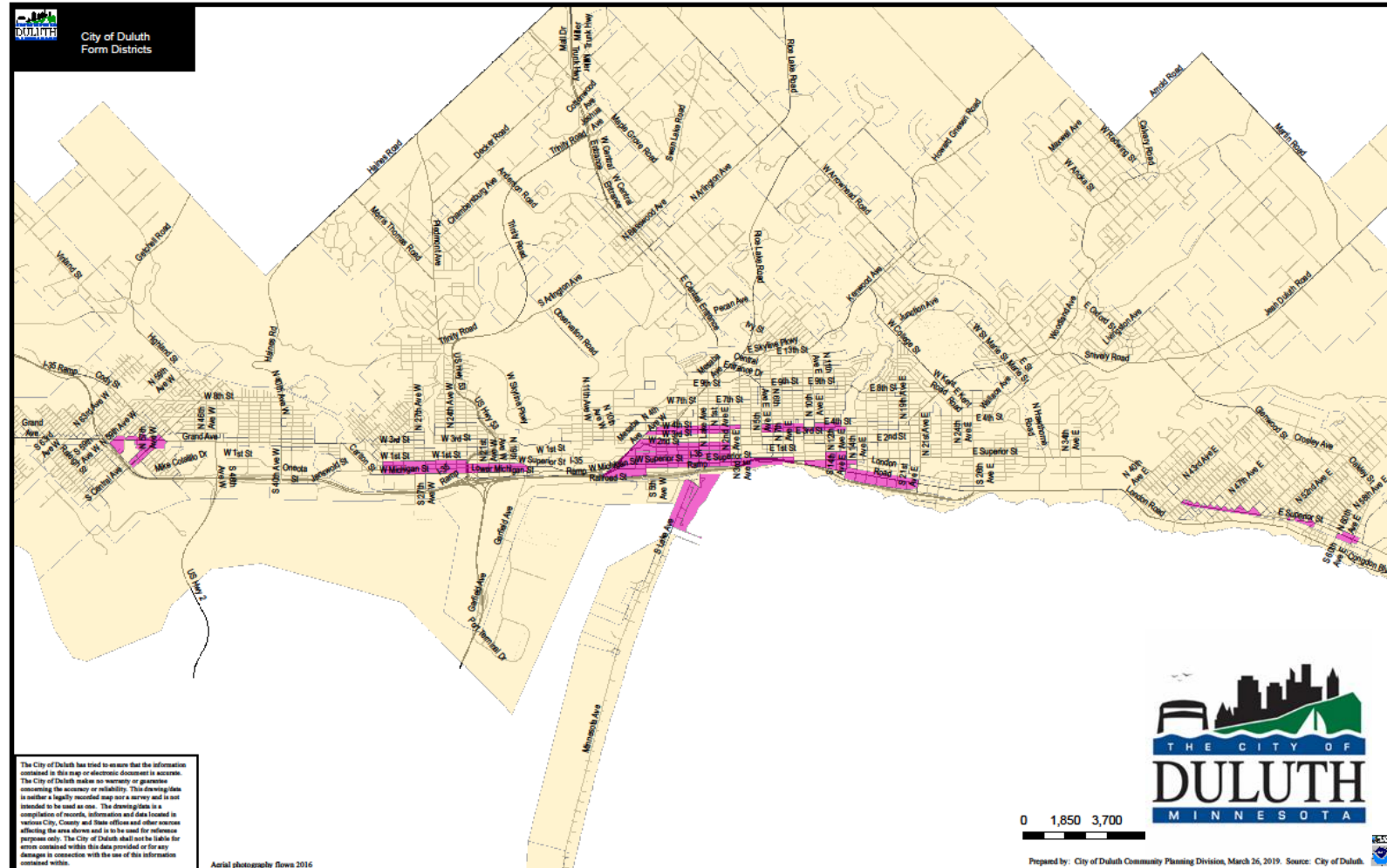
# Location of Units: Zoning Districts (Feb 21)

## Frequency in Zone Districts

RR-1	1 Unit (1.4%)
R-1	46 Units (65.7%)
R-2	4 Units (5.7%)
MU-N	2 Units (2.9%)
Form Dist.	17 Units (24.3%)

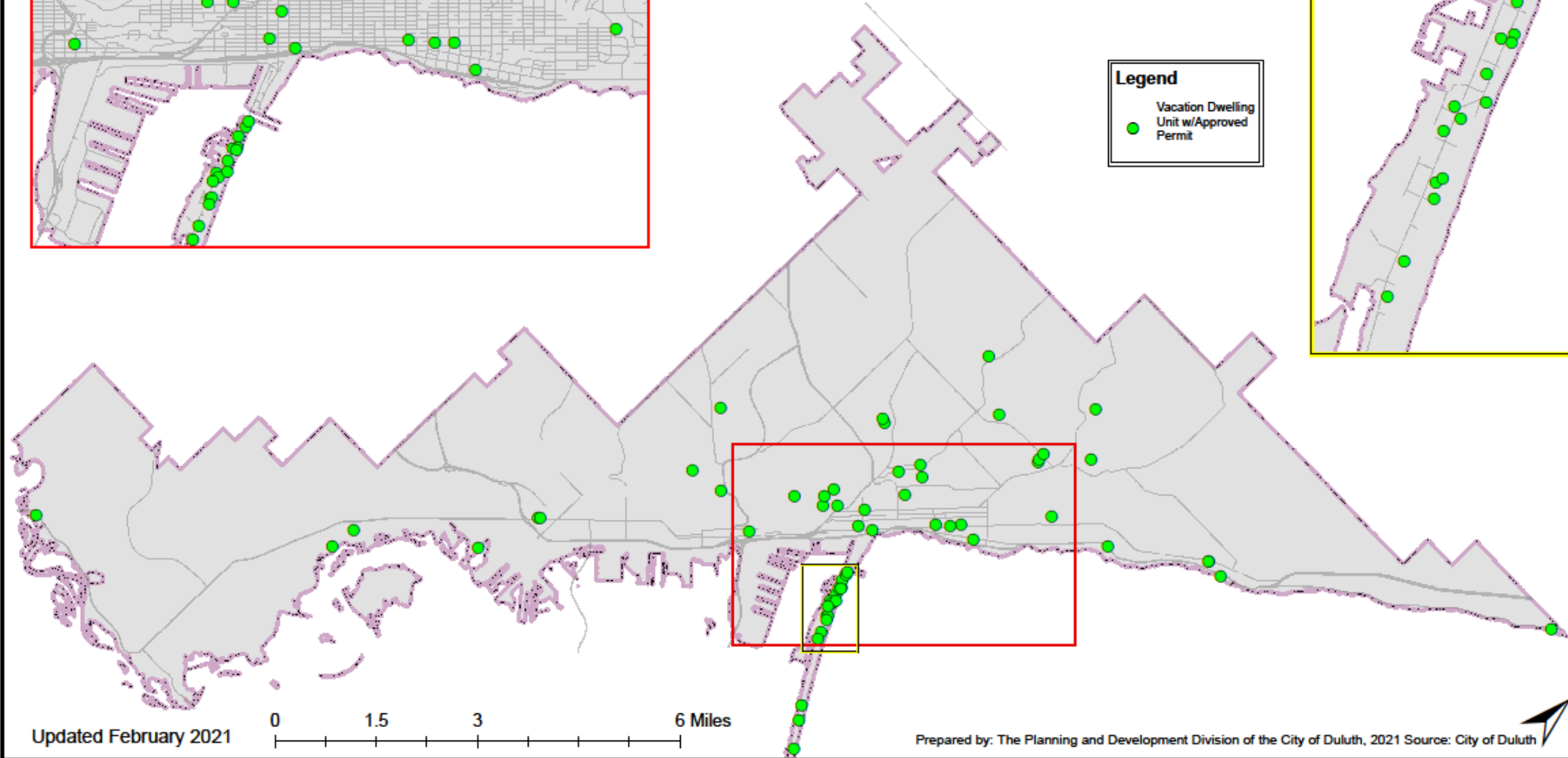
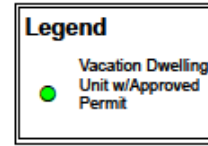
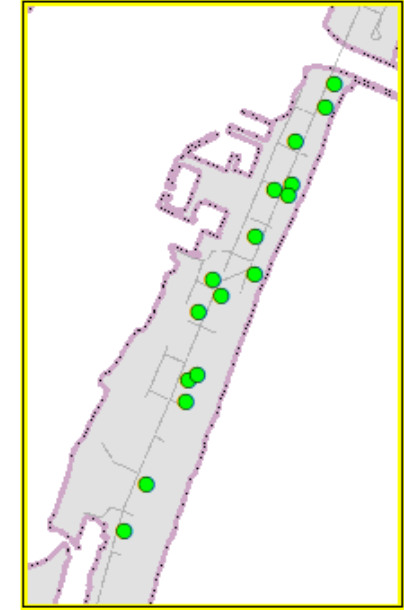
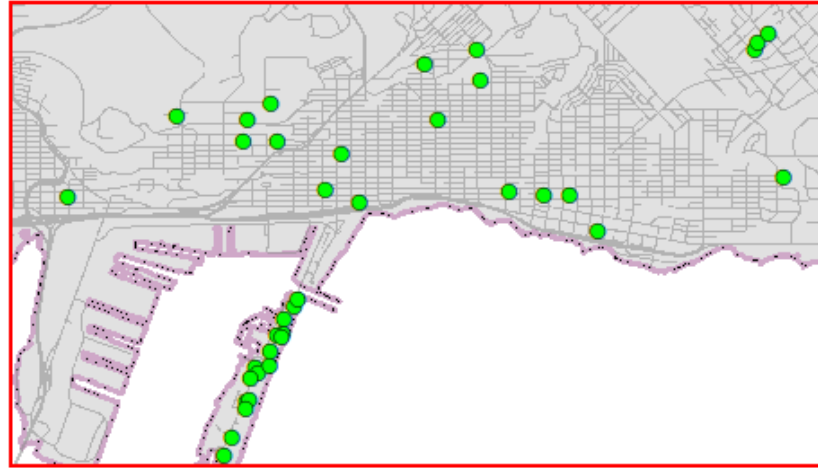
## In Purple: Form District Locations

- Access to mass transit
- Closer to cultural and tourist amenities
- Lower risk of noise and nuisance complaints in dense areas

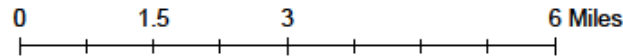


0 1,850 3,700

# Vacation Dwelling Units in Duluth



Updated February 2021

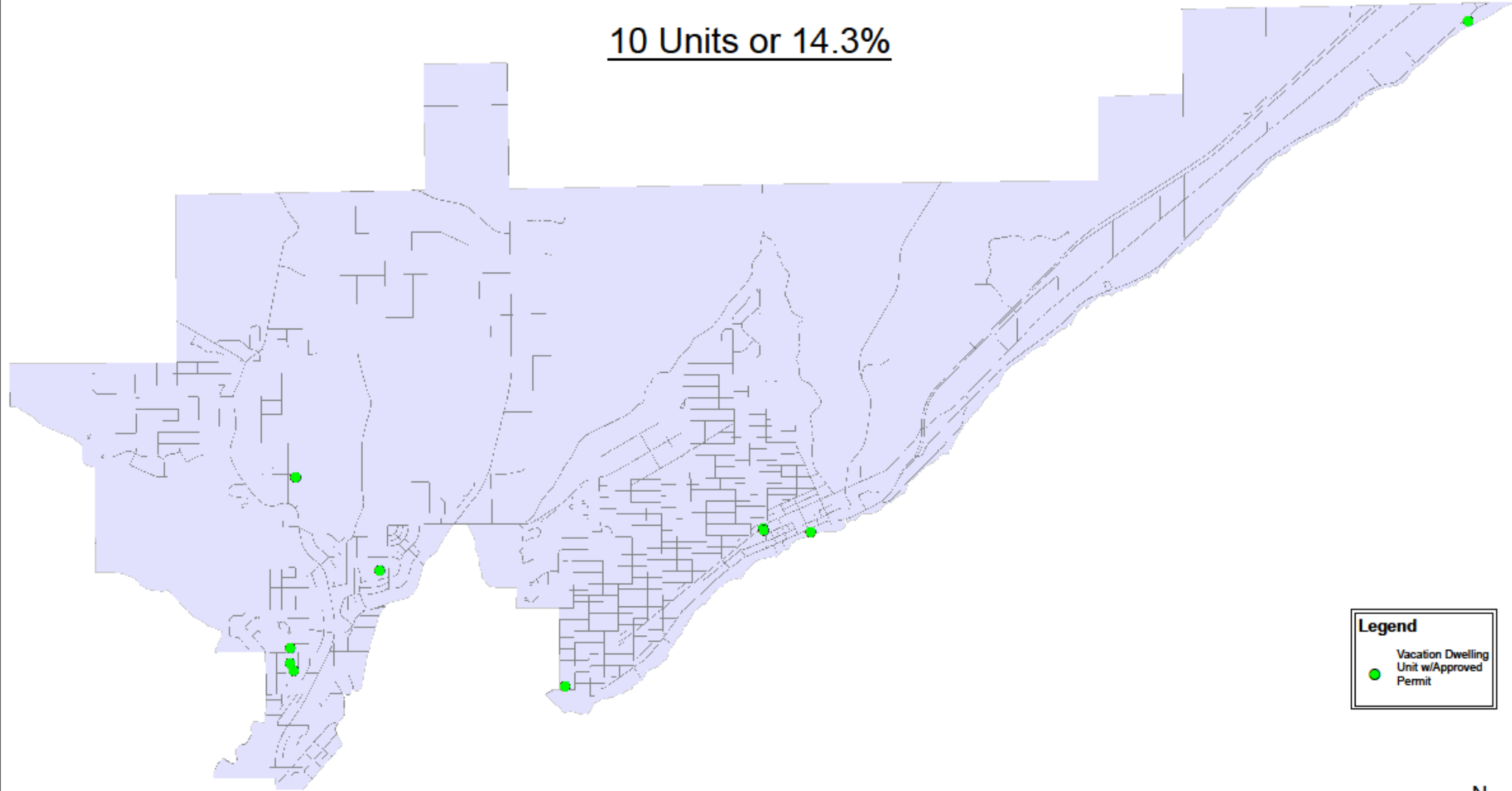


Prepared by: The Planning and Development Division of the City of Duluth, 2021 Source: City of Duluth



# Units in District 1

10 Units or 14.3%



**Legend**

- Vacation Dwelling Unit w/Approved Permit

Updated February 2021

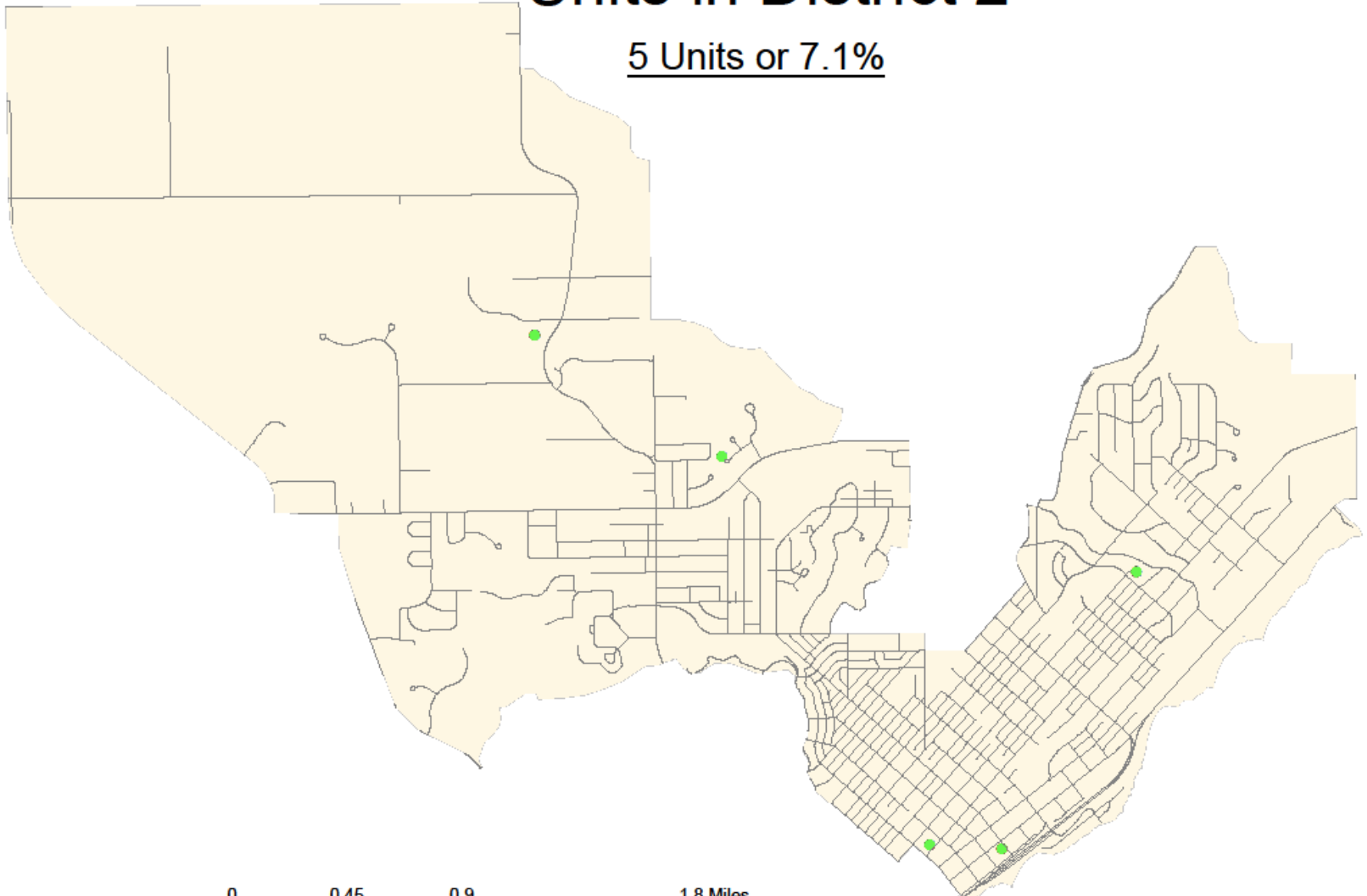
0 0.5 1 2 Miles

Prepared by: The Planning and Development Division of the City of Duluth, 2021 Source: City of Duluth



# Units in District 2

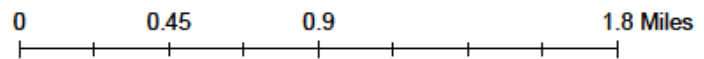
5 Units or 7.1%



**Legend**

- Vacation Dwelling Unit w/Approved Permit

Updated February 2021

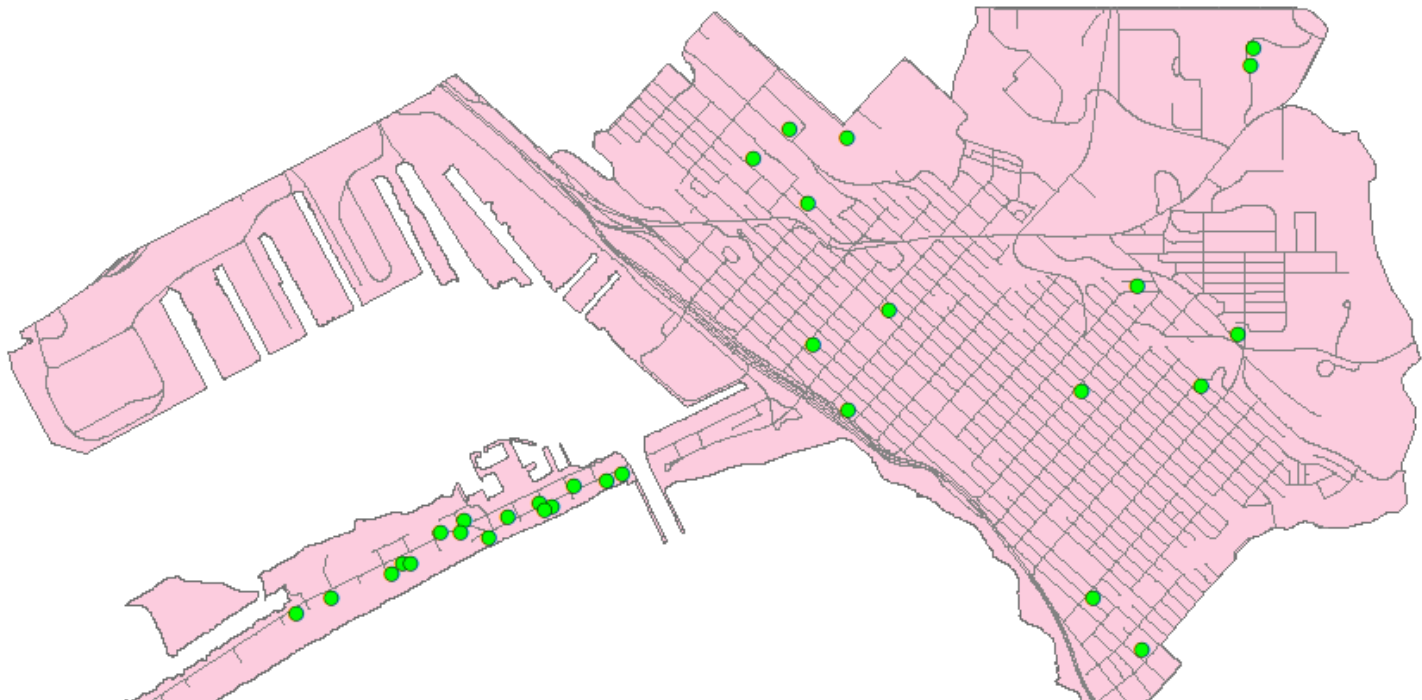


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# Units in District 3

40 Units or 57.1%

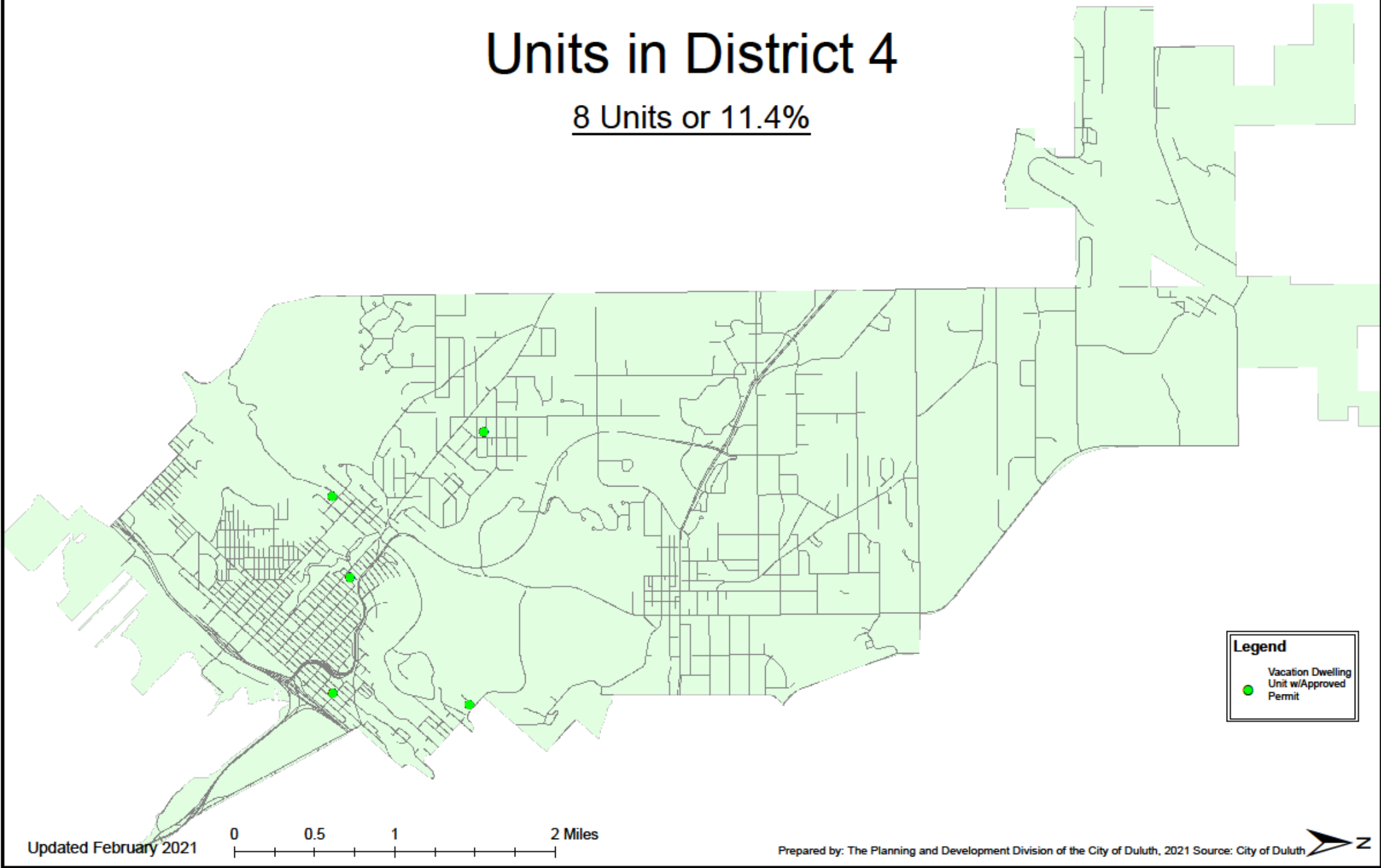


- 21 Units, or 30%, of All Units on Park Point
- Of approximately 690 housing units on Park Point
  - Approximately 300 owner occupied

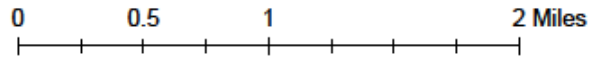


# Units in District 4

8 Units or 11.4%



Updated February 2021

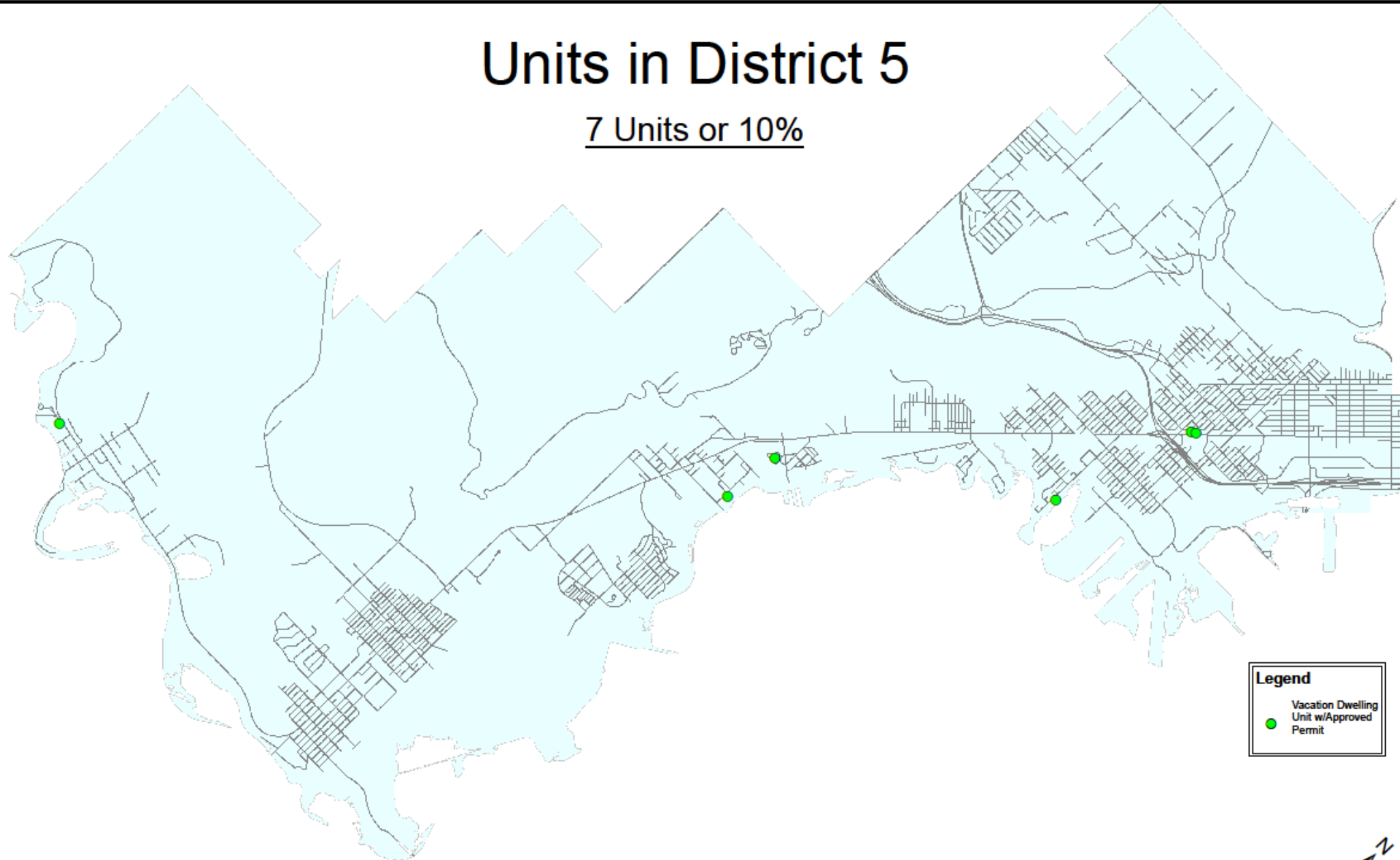


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# Units in District 5

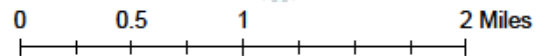
7 Units or 10%



**Legend**

- Vacation Dwelling Unit w/Approved Permit

Updated February 2021



Prepared by: The Planning and Development Division of the City of Duluth, 2021 Source: City of Duluth





# City Council Resolution



City of Duluth

411 West First Street  
Duluth, Minnesota 55802

## Legislation Details (With Text)

<b>File #:</b>	21-0558R	<b>Name:</b>	
<b>Type:</b>	Resolution	<b>Status:</b>	Passed
<b>File created:</b>	7/13/2021	<b>In control:</b>	Planning and Economic Development
<b>On agenda:</b>	7/19/2021	<b>Final action:</b>	7/19/2021
<b>Title:</b>	RESOLUTION REQUESTING PLANNING COMMISSION REVIEW, EVALUATION, AND HOLD A PUBLIC HEARING FOR UNIFIED DEVELOPMENT CODE (UDC) REGULATIONS RELATED TO VACATION DWELLING UNITS.		
<b>Sponsors:</b>	Zack Filipovich, Roz Randorf, Terese Tomanek, Janet Kennedy		
<b>Indexes:</b>			
<b>Code sections:</b>			
<b>Attachments:</b>			

Date	Ver.	Action By	Action	Result
7/19/2021	1	City Council	adopted	

RESOLUTION REQUESTING PLANNING COMMISSION REVIEW, EVALUATION, AND HOLD A PUBLIC HEARING FOR UNIFIED DEVELOPMENT CODE (UDC) REGULATIONS RELATED TO VACATION DWELLING UNITS.

BY COUNCILORS FILIPOVICH, RANDORF, TOMANEK, AND KENNEDY:

WHEREAS, the purpose of the Unified Development Code ("UDC") is to "protect the public health, safety, and welfare and to implement the goals and objectives of the comprehensive land use plan..." Section 50-2 Duluth City Code; and

WHEREAS, the UDC regulations set parameters for the interim use of vacation dwelling units within certain zoning districts in the city; and

WHEREAS, the concept of internet-based rental of vacation dwelling units remains an emergent land use, the standards for which remain under evaluation for professional city planning and development best practices, causing a need for occasional updates to those regulations; and

WHEREAS, to better understand and evaluate regulations for vacation dwelling units the city council's planning and economic development committee has facilitated several committee meetings in early 2021 to consider options for potential improvements to those regulations.

THEREFORE, BE IT RESOLVED, the city council requests that the city planning commission undertake updates to UDC Section 50-20.3.U, Use-Specific Standards, Commercial Uses, Vacation Dwelling Units.

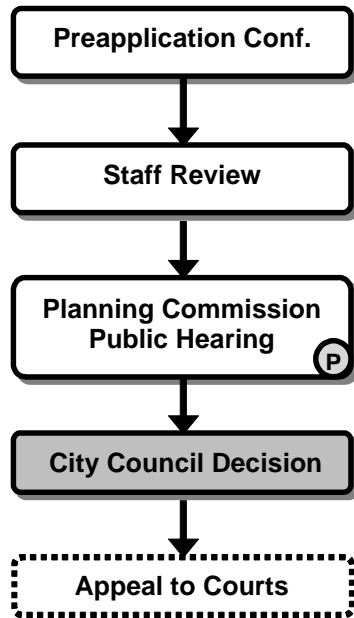
BE IT FURTHER RESOLVED, that the planning commission consider the creation of a new, over-the-counter annual permit for short-term vacation dwelling units permitting owners to rent their owner-occupied, homestead property as vacation dwelling units for not more than twenty-one (21) days per year, specified in the permit, with no rental period for no more than seven (7) consecutive days, nor less than two (2) consecutive days, subject to meeting all other applicable inspection and building code requirements for a vacation dwelling unit.

BE IT FURTHER RESOLVED, that the planning commission consider modifying the standards for

- A. Vacation dwelling units will be subject to **approval by the planning commission**, subject to appeal to the city council;
- B. Limiting the total number of bedrooms in any vacation dwelling unit to **not exceed four (4) bedrooms**;
- C. Strengthening conditions for approval to include a **dense urban screen or fence to be in place at the time of approval** and to be continuously maintained during the permit period between the permitted property and neighboring properties, etc,
- D. Increasing the **vacation dwelling unit cap** to provide for an increase of 10 percent of the net increase in housing units created in the city in the previous year, or no more than ten (10) new vacation dwelling units per year, whichever is less, provided that the total number of vacation dwelling shall not exceed 120 units;
- E. Retaining the **exemption for vacation dwelling units located in form districts**;
- F. Creation of a **new, over-the counter annual permit** for short-term vacation dwelling units permitting **owners to rent their owner-occupied, homestead** property as vacation dwelling units for not more than twenty-one (21) days per year,

# Proposed Changes, A. Approval Process

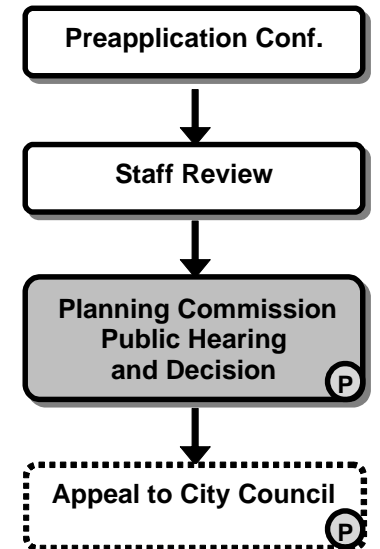
## Interim Use Permit



(P) Indicates Public Hearing Required

Instead of Having Future Vacation Dwelling Units Approved by the City Council (Left Image) Have the Planning Commission Approve Future Vacation Dwelling Units (Right Image), With Appeals Allowable to City Council (Within 10 Days of Approval)

## Special Use Permit



(P) Indicates Public Hearing Required

# Proposed Changes, B. Limit Size of Future VDU

The total number of bedrooms in any future new vacation dwelling unit will not exceed four (4) bedrooms. Existing approved vacation dwelling units would be grandfathered to this provision, as long as they continue under the same ownership as when initially permitted.



# Proposed Changes, C. Strengthen Standards

- Strengthening conditions for approval to include a **dense urban screen or fence to be in place at the time of approval** and to be continuously maintained during the permit period between the permitted property and neighboring properties.
- The vacation dwelling permit holder shall ensure that all requirements for waste removal services and prohibitions on burning of trash is strictly adhered to by occupants of the vacation dwelling.
- The permit holder must designate in writing a managing agent or local contact who resides within 25 miles of the City and who has authority to act for the owner in responding 24-hours-a-day to any complaints from neighbors or the City. The permit holder must notify the city within 10 days of a change in the managing agent or local contact's contact information.
- The permit holder shall notify by letter all property owners within 100' of the property boundary of the name, address, and phone number of the managing agent or local contact named above and provide the city with a copy of the letter.
- The permit holder must include the permit number on all print, poster or web advertisements.

# Proposed Changes, D. and E. Increase the Max Cap

-Current cap is at 60, excluding units in Form Districts (F1-F9)

-Proposal to change the vacation dwelling unit cap: increase of 10 percent of the net increase in housing units created in the city in the previous year, or no more than ten (10) new vacation dwelling units per year, whichever is less, provided that the total number of vacation dwelling shall not exceed 120 units.

-Form District Vacation Dwellings would still be exempt from this cap.



# Proposed Changes, D. and E. Increase the Max Cap

How many new housing units are created per year? According to the City of Duluth Housing Indicator Report 2020, issued May 2021, 195 new housing units (of all types) were created, and 45 housing units (of all types) were demolished, for a net gain of 150 housing units created in 2020.

This number can vary greatly from year to year, from -62 in 2011, to 565 in 2006. The average over the last 18 years, from 2003 to 2020, has been a net gain of 155 units per year.



# Proposed Changes, F. New Permit Type

- Creation of a new, over-the counter annual permit for short-term vacation dwelling units permitting owners to rent their **owner-occupied, homestead property** as vacation dwelling units for **not more than twenty-one (21) days per year**, specified in the permit, with no rental period for no more than seven (7) consecutive days, nor less than two (2) consecutive days, subject to meeting all other applicable inspection and building code requirements for a vacation dwelling unit.
- A **vacation dwelling, limited**, would be proposed to be a permitted use in the same non-form district zone districts as a vacation dwelling unit was allowed (RR-1, RR-2, R-1, R-2, and MU-N).
- “Over the Counter Permit”; would NOT require a public hearing.



# Proposed Changes, Other

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- Update Accessory Vacation Dwelling standards to mirror language for Vacation Dwelling units (nuisances, advertisement, etc).
- Clarify Accessory Home Share standards (advertisement, rental period).
- Clarify language related to Cottage Home Parks.



# Proposed Changes, Not Included At This Time

- Limiting the number** of vacation dwelling unit permits that any individual or organization may have.
- Increasing the **cap immediately** to 100 or 120.
- Changing the period of the **lifespan of the permit** (which has typically, but not always, been six years).
- Minimum distances or **setbacks** from other existing vacation dwelling units, or maximum number of vacation dwelling units per **council district**.
- Allowing existing vacation dwelling permits to be “**sold**” or “**transferred**” to other properties or new property owners.

# Next Steps

Proposed Language to be shared at a Special Planning Commission Public Hearing on Tuesday, September 28, 2021, at 5:00 pm.  
<https://duluthmn.gov/live-meeting>

Written comments in advance of the meeting are appreciated. Send to [planning@duluthmn.gov](mailto:planning@duluthmn.gov), with “Comment for Planning Commission” in the subject line.

Final language will be shared with the City Council for their review and action in October.