

## Testimony in Support of

### LD 1181: An Act Regarding the Designation of Short-term Rental Units as Commercial or Residential in Use

April 15, 2025

Chairpersons Senator Curry and Representative Gere and honorable members of the Housing and Economic Development Committee:

My name is Kerry Leichtman. I am a Certified Maine Assessor serving the jurisdictions of Camden and Rockport. I am testifying today in support of LD 1181.

LD 1181 is a simple but important bill in that it provides assessors with the mechanism to treat commercial short-term rentals as commercial properties, separate from residential properties.

As it is now, when a single-family home is sold, that sale becomes part of the calculation we use to determine the current market value for single-family homes. We do the same calculation for many property types: single-family residences, multi-unit residences, office buildings, warehouses, hotels, Bed & Breakfasts, etc. We use that market analysis to determine where our assessments stand relative to current market value.

When we see that single-family homes, for example, are at 80% of market value and the rest of the municipality is at 95%, we need to adjust up the value of our municipality's single-family homes.

Each property type has a land use code. A few examples: Single-Family Homes are 1010, Professional Buildings are 3420, Bed & Breakfasts are 3030. When calculating for market value we put all recent sales of single-family homes in one bucket, professional building sales in another bucket, bed & breakfast sales in another bucket, and so on. Once segregated, we analyze the sales by performing sales ratio studies on each category. A sales ratio study determines current market value by dividing the assessed value of a recent sale by its sale price. This gives us a ratio. We then stack the ratios in descending order. The middle number is the median ratio. That's the ratio we use.

Maine Revenue Services requires we have a certified ratio of 100%. They allow us to deviate from that by 10%, which means we can have a ratio as low as 91% and still certify at 100%.

If we have a lot of sales that are above assessed value, the ratio study will reveal a low ratio. As an example: a property assessed for \$500,000 sells for \$750,000 has a ratio of 67% ( $500,000 \div 750,000 = .6666$ ). Sales like this drive overall ratios down.

Often the buyer of a commercial short-term rental – the distinction between commercial and residential is important – has calculated an anticipated income stream and will offer a price based on that anticipated income, just as the purchaser of any income-producing commercial property would. The individual looking for a family home who is not anticipating income, is basing their offer on what similar homes in a particular area are selling for, in other words, the current residential single-family home market. The incentives and expectations are different. That's just common sense.

When commercial short-term rentals are included in the single-family home calculation, the market value of single-family homes will trend higher than it would be without the commercial short-term rentals in the calculation.

Residential short-term rentals are different. A residential short-term rental is a property where the property owner claims resident status. They would be eligible for a homestead exemption and as such would not be designated as a commercial entity. Many people rent a room or rooms in their homes, or an apartment over the garage or in the barn or a cabin on their backland, to make extra income. Under LD 1181, these properties would be designated as residential short-term rentals, not as commercial entities.

LD 1181 will allow for the creation of a land use code specific to commercial and residential short-term rentals. In this way, the price paid for a commercial short-term rental will not unduly raise the value of the residential homes in the municipality.

Assessing is all about fair and equal treatment. LD 1181 has nothing to do with allowing or not allowing short-term rentals in a community. It simply defines a commercial short-term rental as a commercial entity equal to other income-producing properties, rather than a residential entity, which is fair to residential property owners

Thank you for considering my testimony.