

Report to Council



Date: May 6, 2019
File: 1200-40
To: City Manager
From: Laura Bentley, Community Planning Supervisor
Subject: Short-Term Rental Accommodation in Secondary Suites and Carriage Houses

Recommendation:

THAT Zoning Bylaw Text Amendment Application No. TA19-0011 to amend City of Kelowna Zoning Bylaw No. 8000 as outlined in the Report from the Community Planning Department dated May 6, 2019 be considered by Council;

AND THAT the Zoning Bylaw Text Amending Bylaw be forwarded to a Public Hearing for further consideration.

Purpose:

To amend the Zoning Bylaw by adding short-term rental accommodation as a permitted use in secondary suites and carriage houses, with associated regulations.

Background:

On March 12, 2019, Council directed staff to prepare a text amendment to Zoning Bylaw No. 8000 to permit short-term rental accommodation as a use in secondary suites and carriage houses. This was following the public hearing on the same date regarding the text amendment that introduced short-term rental accommodation as a use and outlined associated regulations in the Zoning Bylaw.

Staff propose that short-term rental accommodation be permitted in secondary suites and carriage houses with the following conditions:

- a) The short-term rental operator must have their principal residence on that property, as either the tenant of the secondary suite or carriage house, or the resident of the main house;
- b) One short-term rental operation is allowed per property for single dwelling housing with or without a secondary suite or carriage house;
- c) A maximum of two bedrooms or sleeping units can be used for short-term rentals in a secondary suite or carriage house; and

- d) One parking space is required, which may be the secondary suite or carriage house space.

These regulations will help to ensure that short-term rentals in secondary suites and carriage houses act as good neighbours by limiting the scale of this use in residential neighbourhoods. They are generally consistent with those already in place for short-term rentals in single, two, or multi-unit residential buildings. The proposed text amendment is outlined in Schedule A.

Secondary suites and carriage houses are an integral part of Kelowna's secondary market¹. Allowing short-term rentals in these units is expected to remove units from the long-term rental housing market, putting added pressure on purpose-built rentals and other forms of rental housing. Kelowna's Healthy Housing Strategy identifies a need to promote and protect rental housing, and taking action on those recommendations is important to support a more stable rental housing market. Other recommended actions, some of which are underway, include aligning land investments with housing needs, creating an inventory of existing purpose-built rental housing, reducing the cost of developing affordable purpose-built rental housing, and revising tax incentives for purpose-built rental housing.

The following sections provide a brief background of secondary suites and carriage houses in Kelowna, as well as other options that were considered in developing the proposed regulations.

Secondary Suites & Carriage Houses in Kelowna

Secondary suites and carriage houses have long been part of Kelowna's range of housing options. As of the end of 2018, Kelowna has an estimated 2,247 legal secondary suites and carriage houses, with upwards of 650 building permits issued for those housing types in 2017 and 2018 alone. For comparison, the primary rental market² has 5,176 units, with 708 units added from October 2016 to October 2018³.

As smaller units with relatively few overhead costs, secondary suites and carriage houses are generally a more affordable form of rental housing. On average in Kelowna, rent for secondary suites and carriage houses is 13% less than that for purpose-built rental apartments and 43% less than single detached houses⁴. Availability varies between rental unit types, with the vacancy rate for the primary rental market being 1.9% and the vacancy rate for rented condo units being 0.6%⁵. Although the primary rental market vacancy rate rose in 2018, it is still below the targeted rate of 3% to 5%.

Recognizing the value of secondary suites and carriage houses in providing more affordable forms of rental housing, adding incremental density in residential areas, and offering homeowners flexibility in adding a dwelling unit on their property, the development process for secondary suites and carriage houses has been streamlined over time to make it easier for homeowners to add a secondary dwelling unit. A brief timeline of the development process for these housing types is as follows:

- Mid-1990s: Secondary suites allowed in most single detached zones (rezoning to 's' subzone).
- Early 2000s: Carriage houses allowed in most single detached zones (rezoning to 's' subzone).

¹ The secondary rental market consists of individually owned units that are rented out on a long-term basis (minimum monthly tenancy), including secondary suites, carriage houses, condo units, and single detached houses.

² The primary rental market consists of purpose-built rental apartments and townhouses.

³ Canada Mortgage and Housing Corporation (2018). *CMHC Rental Market Survey*.

⁴ Canada Mortgage and Housing Corporation (2016). *Rental Market Report Kelowna CMA*.

⁵ Canada Mortgage and Housing Corporation (2018). *Rental Market Report Kelowna CMA*.

- 2012: Removed 's' subzone for secondary suites and changed to 'c' subzone for carriage houses.
- 2016: Extended secondary suites to all zones that allow single detached houses, with location-specific exceptions due to servicing limitations. Removed requirement for secondary suites and carriage houses to hold a business license.
- 2017: Removed form and character development permits for carriage houses.

Where before 2012 a homeowner looking to add a secondary suite needed to go through a full rezoning process, building permit, and business license, today a homeowner who meets the requirements for a secondary suite only needs a building permit. The intent behind these changes was to simplify opportunities to achieve legal and more affordable housing options.

Guiding Principles & Public Survey

On July 16, 2018, Council endorsed guiding principles to direct the development of regulations for short-term rentals. They are based on Kelowna's housing context, concerns about potential nuisance impacts in residential areas, and establishing a fair approach among short-term accommodation providers. The three guiding principles are:

1. Ensure short-term rental accommodations do not impact the long-term rental housing supply in a negative way.
2. Ensure short-term rental accommodations are good neighbours.
3. Ensure equity among short-term accommodation providers.

The public survey conducted in fall 2017 has been used throughout the development of the short-term rental regulations in conjunction with stakeholder consultation and consideration of Kelowna's housing context. In ranking eight objectives for regulating short-term rentals, respondents identified 'protect the supply of long-term rental housing' as the fourth most important. Just over 60% of respondents indicated that secondary suites and carriage houses should be used for short-term rentals, though suburban areas had the least support (62%) when asked where short-term rentals should be located.

Other Considerations

Over the course of developing the regulations, staff heard from many property owners who rent to post-secondary students during the school year (September to April) and operate short-term rentals in the summer. Staff considered a four-month restriction on short-term rentals in secondary suites and carriage houses to encourage these units to be used for long-term rentals during the school year. However, staff recognize that short-term rentals serve a variety of needs and residents are looking for flexibility. For example, residents around Kelowna General Hospital may be more likely to operate short-term rentals year-round. Similarly, a geographic area to support student rentals is not proposed because students live in many neighbourhoods across the City, and different neighbourhoods serve different demands for short-term rentals.

Recognizing the relationship to the long-term rental housing market, staff considered connecting regulations for short-term rentals in secondary suites and carriage houses to the vacancy rate. A healthy vacancy rate is generally considered to be 3%; this provides opportunities for a variety of suitable rental housing options for residents and represents more stability in the rental market.

One model would be to set a maximum number of short-term rental business licenses for secondary suites and carriage houses when Kelowna is below a 3% vacancy rate, and increase it when above 3%. This option has several challenges for implementation and administration. Vacancy rates are reported annually in the fall and lag time is not well-captured, meaning that vacancies may actually be higher or lower come the main tourist season. It would also create uncertainty for operators. Further, Kelowna's vacancy rate has been below 3% since 2013, calling into question the usefulness of such a cap. Should short-term rentals be allowed in secondary suites and carriage houses, other measures should be used to help to promote and protect rental housing.

It should be noted that from 2003 to 2008, second kitchens were allowed in single detached homes without being part of a formalized secondary suite. These kitchens were to be used exclusively for residents of the house and were to be free-flowing spaces with no locking doors. For those spaces to be used for short-term rentals, homeowners with previously approved second kitchens would need to either decommission the second kitchen or convert them into full secondary suites.

Across BC, municipalities have taken different approaches to regulating short-term rentals in secondary dwelling units (e.g., secondary suite, carriage house). Vancouver and Victoria, for example, only allow the principal resident (i.e., tenant) of a secondary dwelling unit to operate a short-term rental, while Nelson and Penticton allow the property owner to operate a short-term rental out of a secondary dwelling unit. Each municipality has associated regulations regarding the number of guests per unit.

Regulations around short-term rentals in secondary suites and carriage houses will be reviewed along with the broader set of short-term rental regulations following two tourist seasons.

Internal Circulation:

G. Wise, Business Licence Manager

J. Moore, Long Range Policy Planning Manager

K. O'Rourke, Community Communications Manager

Existing Policy:

OCP Goal 2. Address Housing Needs of All Residents. Address housing needs of all residents by working towards an adequate supply of a variety of housing.

Healthy Housing Strategy Action: Update regulations to protect the rental stock from the impacts of short-term rentals.

Submitted by:

L. Bentley, Community Planning Supervisor

Approved for inclusion: R. Smith, Divisional Director, Planning & Development Services

Attachments:

Schedule A – Short-Term Rental Accommodation in Secondary Suites & Carriage Houses Zoning Bylaw No. 8000 Text Amendments

CC:

G. Wise, Business Licence Manager

D. Gazley, Bylaw Services Manager

J. Moore, Long Range Policy Planning Manager

K. O'Rourke, Community Communications Manager