

Report to Council



Date: August 22, 2016
File: 0920-01
To: City Manager
From: R.Smith, Community Planning Manager
Subject: Short-Term Vacation Rental Policy Discussion

Recommendation:

That Council receives for information the report from the Community Planning Department dated August 22, 2016 with regard to options for regulating short-term rentals;

AND THAT Council direct staff to bring forward to an afternoon meeting the necessary bylaw amendments to the Zoning and Business Licence bylaws as identified in the report from the Community Planning Department dated August 22, 2016 with regard to options for regulating short-term rentals

Purpose:

To inform Council of the options available for regulating short-term vacation rentals and discuss recommended options for Kelowna.

Background:

Council requested a policy report from staff relating to short-term vacation rentals at its meeting of April 25, 2016.

The number of short term vacation rentals in Kelowna's neighbourhoods appears to have been increasing of the past few years. There are a number of websites including Airbnb, VRBO, Homestay etc. that offer short-term rentals of homes, condos and rooms. These may also include bed and breakfast type services.

This emerging trend has some potential negative impacts on the local community including:

- Possible conversion of existing housing stock to vacation rentals
- Lost tax revenue
- Inequitable rules when compared to the broader hotel industry (i.e. MRDT Tax equivalent)

- Potential lack of compliance with health and safety regulations

Current Land Use Policy:

Vacation rentals are not currently permitted in any of the City's residential zones other than the RM6 - High Density Residential zone. The minimum tenancy period on all other residential properties is 30 days. The City's Bylaw Services team responds to and investigates properties suspected of operating short-term rental accommodation on a complaint basis as resources are not currently available for more proactive enforcement. Annually, Bylaw Services staff receive approximately 50 complaints related to the short-term rental of residential homes.

While 'sharing economy' type initiatives can be beneficial to the City, short-term rentals do have the potential to impact the City's available rental housing supply. This is of particular concern when vacancy rates are very low (currently approx. 0.7 per cent).

Impact on Rental Supply

Canada Mortgage and Housing Corporation (CMHC) 2015 data indicates that of the 12,730 condominium units in Kelowna, 3,136 (25%) are rented. In addition to this, the City's rental supply is supported by a secondary rental market with approximately 9,600 units, which includes carriage houses, secondary suites and detached homes. The combination of the condo/secondary rental market units yields a supply of approximately 12,736 rental units. City housing policies indicate that approximately 300 new rental units need to be added each year to ensure a healthy rental market is maintained.

It is difficult to determine the exact number of short term vacation rentals within Kelowna's municipal boundary as a result of:

- Duplicate rentals listed on different sites
- Inability to compare civic addresses
- Some are located in properties where short term rentals are permitted but the number of rentals available is unclear
- Some properties are listed both for home and room rentals
- Some properties are only rented for portions of the year

Staff's best estimate, based on all info available, is that approximately 500 units are in the short term rental pool.

- Approx number of condo/secondary rental units in Kelowna (CMHC 2015): 12,736
- Estimated Short-Term Rentals: 500 (includes homes, condos, shared room accommodation and suites)
- Hotel Room Supply (Hotel/motel/resort): 3,061

If all of the units currently estimated as unpermitted short-term rentals were converted to legal long-term rental units, the impact on the local vacancy rate would be positive, however, is difficult to determine with any level of certainty, the exact impact because CMHC

only reports on vacancy rates in the in primary rental market and not the secondary rental market. Further more, of the 500 rental listings, some are only room rentals and not rentals of a self-contained unit. In some communities, a large availability of short term rentals has been observed to reduce the availability of long-term rental housing, and to increase the cost of housing however there is limited data available to consider at this time.

At the very least, the requirement of a business license for various types of short term rentals would give the City a better grasp on how many, and of what type exist in our local market.

Bylaw Complaints

Beyond the potential impact on Kelowna's long term rental supply, there are neighbourhood impacts associated with short term rentals. A search of the City's Service Request system shows that in 2015 there were approximately 50 related complaints. Based on the data available, this appears to have risen every year for the best 3 years. The majority of complaints relate to noise and parking.

Policy/Regulatory Options to Manage Short-Term Rental Housing

Based on research of numerous jurisdictions and regulatory alternatives, the below options may prove effective in controlling/regulating the number of short-term rentals within the City of Kelowna's jurisdiction. Some cities have narrowly focused on enforcing requirements for taxation and business licenses. Other cities have adopted strict controls on the location of short term rentals, number of nights allowed and the relationship between the operator and the unit being rented. Both approaches have an impact on staff resources.

Land Use control options

- Limit short-term vacation rentals to specific zones.
- Create a "sub-zone" in identified areas so that every new short-term rental requires a minor rezoning.
- Create geographical separation requirements between vacation rentals to be applied during rezoning.
- Combine vacation rentals and bed and breakfasts into a single land-use category.
- Require additional vehicle parking and boat trailer parking for single family dwelling/carriage house/room rental.
- Restrict secondary uses on residential properties that may conflict/intensify the impact of a short-term vacation rental.
- Require an on-site host/operator or require that the owner be on-site.

Business Licensing control options*

The City's legal Counsel indicates that in general, business licensing requirements are more amenable to enforcement than use or zoning restrictions because actual use need not always be established if the business holds itself out through advertising as available. Business licensing also provides powers to suspend and/or impose terms.

Council could identify a specific number of business licenses that it would be comfortable issuing. The number could be linked to the rental vacancy rate so that new licenses are not

issued when the vacancy rate is less than 3% (similar to the threshold used for rental buildings applying for strata conversion). Additional conditions could also be imposed through licenses.

**Note:* Any land use/business licensing regulatory regime assumes that the City of Kelowna will require payment of the local Hotel Tax (MRDT), collected by either the business owner or the marketing agency (i.e. website host) and remitted through the appropriate process. Further review of this component of a regulatory/licensing regime would be required prior to implementation.

Outright Prohibition

- Enforce the City's current Zoning Bylaw regulations which generally does not allow tenancies shorter than 30 days in residential zones.
- To be effective, a complaint based enforcement strategy would need to be replaced with some type of active monitoring/enforcement. This would require additional resources.

Recommended Strategy (for discussion)

A combination of Zoning and Business Licensing Controls, to permit short-term rentals and balance rental market needs against emerging trends and property owner wants, might be considered the best fit for Kelowna.

1. Restrict number of business licenses issued for various types of short term rentals
 - Restrict available licenses in each category of:
 - Single-family dwellings
 - Townhouses and condominiums
 - Individual rooms (similar to present B&B license)
 - Council to set a number of business licenses to issue initially. An annual staff review of the vacancy rate, with allowance for new short term rental licenses only if the vacancy rate is greater than 3%.
 - Set the fee for a business license at an amount that does not act as a deterrent to compliance, yet is inclusive of administration cost recovery.
2. Add General Zoning requirements
 - Replace B&B use with Short-Term Rental Use
 - Require additional parking for short-term rentals where rooms are rented individually
 - Restrict other secondary uses from occurring on the same site as certain short term rentals (home based business, etc...)
 - Restrict ability to rent as short terms to owners only
 - Restrict short term rentals to the primary dwelling on A1-Agriculture zoned properties
3. Hotel Tax (MRDT) Collection required
 - Operator or marketing agency (website) to collect hotel tax (MRDT)
 - Remitted to Province of BC for distribution to Local Government

Internal Circulation:

Urban Planning Manager
Policy and Planning
Bylaw Services
Communications

Legal/Statutory Authority:

Local Government Act Section 479
Community Charter Section 60

Personnel Implications:

If Council chose to restrict vacation rentals with land use controls such as specific zoning designations, this would increase the demand on staff processing development applications.

Given current resources, enforcement would be on a complaint basis and may increase the demand for additional Bylaw Enforcement staff.

Imposing licencing requirements will have an administrative impact.

Financial/Budgetary Considerations:

Staff will need to ensure that any fees required are set appropriately to reflect the City's costs of implementing and maintaining a regulatory regime.

Considerations not applicable to this report:

Existing Policy:

External Agency/Public Comments:

Communications Comments:

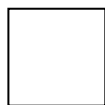
Alternate Recommendation:

Legal/Statutory Procedural Requirements:

Submitted by:

R.Smith, Community Planning Manager

Approved for inclusion:



D.Gilchrist,
Divisional Director of Community Planning and Real Estate

cc: Policy and Planning
Communications
Bylaw Services

Key Messages

Short term rentals triggering growing number of noise and parking complaints in Kelowna neighborhoods.

Various options exist for Council track and potentially regulate short term rentals.