

Report to Council



Date: January 20, 2025
To: Council
From: City Manager
Subject: Update on the Short-Term Rental Accommodation Program & Provincial Alignment
Department: Development Planning Department

Recommendation:

THAT Council receives the report from the Development Planning Department, dated January 20, 2025, regarding Short-Term Rental accommodation;

AND THAT Council directs staff to bring forward draft bylaws to align local regulations with provincial standards.

Purpose:

To review the available data regarding local Short-Term Rentals, and to direct Staff to align local regulations with provincial short-term rental legislation.

Council Priority Alignment:

Affordable Housing
Economic Development

Development Planning:

In early 2024, the City of Kelowna adopted short-term rental (STR) regulations that were more restrictive than the province’s Bill 35 STR legislation. Part of the underlying rationale for the City’s current STR restrictions was the protection of long-term rentals, the challenges and lack of resources to enforce complex STR regulations, and the demands on the Bylaw Services Department.

Short-term rentals regulations have drawn strong criticism from local businesses and the development community as a core reason for a decline in the local economy. In response, Staff have reviewed and summarized the available data on STRs as it relates to housing and tourism. The data indicates that fluctuations in the local economy are the result of several factors and cannot be directly attributed to City of Kelowna STR bylaws. New information released over the course of 2024 indicates several

reasons for the City to align our STR regulations with the province. This includes eligibility for a federal STR grant that would support enforcement efforts, and consistency with the province's new Compliance and Enforcement Unit. Easing the secondary use restrictions on STRs in Kelowna would remove some of the perceived negative impact of these restrictions on the local economy. Additionally, this revision should reduce confusion about STRs in Kelowna in relation to other surrounding municipalities and support a more positive narrative regarding tourism and accommodation choice in Kelowna. With Kelowna's vacancy rates trending upward and ample new purpose-built rental supply in-stream, Staff recommend alignment of our local regulations with the province.

Background:

Short-term rental accommodations are defined as full or partial units made available for rent through online platforms in short-term intervals, typically between 1 and 90 days. STRs blend the traditional definitions of housing and tourist accommodation. Their rapid rise over the course of the last decade from a small segment of the economy to one almost equal in scale to the local hotel industry has had impacts – both positive and negative – on the housing and tourism markets. However, following COVID, housing and tourism have been in a period of intense pressure and market fluctuation. The impacts of local and provincial STR regulations have been the subject of many public discussions in Kelowna over the course of 2024. Anecdotal evidence has been frequently shared in local news and on social media attempting to highlight different perspectives on the impacts of the City of Kelowna's new restrictions.

As the STR restrictions are very recent, we may not see their full impact reflected in data for some time. Accurate and reliable data for the City of Kelowna, as opposed to the Central Okanagan or region, is in short supply when it comes to providing detailed local analysis of STR impacts. Within that complex context, it is challenging to define the role and impacts of STRs, given the multifactorial nature of housing and tourism. Nevertheless, this report will provide an overview of available data about the potential impacts of STR regulations.

Current City of Kelowna STR Regulations

On January 22, 2024, Council approved regulations that had the effect of eliminating new secondary use STRs in Kelowna. Only existing secondary use short-term rentals with a valid business license could continue to operate after May 1, 2024. The aim of these regulations is to balance the interest in having short-term rentals in our community with measures that protect long-term rentals and limit impacts on neighboring properties and uses.

Prior to Council's decision, STR listings in Kelowna had significantly increased. In 2023, there were 1,217 licensed short-term rentals, a 93% rise since 2020 (see Table 1). Additionally, an estimated 1,200 illegal STRs operated between 2023 and 2024. In July 2024, Minister Ravi Kahlon shared that the province was aware of approximately 2,200 STR listings, surpassing licenses issued. Listings do not represent STR units, as one unit may be listed on multiple platforms. The City of Kelowna does not have the resources

available to manage the volume of unlicensed operators and neighbourhood complaints generated by both licensed and unlicensed STRs.

Year	Approved STR as a Principal Use	Approved STR as a Secondary Use	Total Approved STR
2020	378	252	630
2021	477	333	810
2022	666	466	1,132
2023	701	516	1,217
2024	0 - Eliminated by provincial <i>STR Accommodation Act</i>	427	427

Table 1 - Number of approved short-term rental (STR) business licenses per year since 2020

As of December 2024, there were 427 licensed STR properties authorized to continue operations under legal non-conforming use rights. Over time, the number of these licenses is expected to decrease as some operators choose to cease operations and lose non-conforming rights, and no new applications for secondary use short-term rentals would be accepted.

Provincial STR Regulations

On May 1, 2024, new Provincial legislation under *Bill 35 – Short-Term Rental Accommodations Act* came into effect. Under the Act, to have a Short-Term Rental, there are several requirements and regulations that need to be met. At the time of the new legislation, the provincial rules for larger communities over 10,000 people with a vacancy rate under 3%, and are as follows:

1. **Licensing and Registration:**

- Property owners must obtain a business license from the municipality where the STR is located
- The property must be registered with the province once registration is open (early 2025)

2. **Principal Residence Requirement:**

- The STR must be within your primary or principal residence - this means the property should be the usual dwelling unit where you live, make your home, and conduct your daily affairs
- Plus, one secondary suite or one accessory dwelling on the same property (not to exceed two short-term rentals per property)

Under Bill 35, larger communities (population of 10,000 people or more) with a principal residence requirement, and have a vacancy rate above 3% for two consecutive years can request to opt out of the principal residence requirement. This is likely to be an option available to the City of Kelowna in 2026, based on the trajectory of Kelowna's rental vacancy rate.

The province has launched the Compliance and Enforcement Unit (CEU), which is part of the Ministry of Housing's Short-Term Rental Branch in B.C. that enforces the province's short-term rules. The CEU's responsibilities include tracking compliance, issuing compliance orders, administering penalties for violations, and investigating hosts or platforms that may not be following the provincial rules.

Discussion:

From 2017 to 2023, staff engaged with the community and stakeholders to address enforcement challenges, neighbourhood concerns, and protect long-term rentals. Consequently, Kelowna's regulations are more restrictive than those in Bill 35.

Aligning Kelowna's STR regulations with the province should support enforcement efforts in the coming year. In addition to provincial enforcement, the City is applying for a federal grant. If awarded, the fully funded grant would allow for the creation of a new enforcement team for up to three years. Aligning our municipal regulations with provincial standards would strengthen our grant application. The application is due January 24th 2025 and approval would align with our peak tourism season.

Short-Term Rental Listings & Reservations

The number of short-term rental properties in Kelowna and the Central Okanagan decreased by 32.5%, in Quarter 3 (July to September) 2024 compared with the same period in 2023, from 4,079 to 2,752. Another source estimated a high of 4,300 listings in July 2023, and approximately 2,910 listings as a peak in the summer of 2024. Despite local and provincial restrictions coming into force, there remained a sufficient supply of STRs to meet tourism demand in the summer of 2024, however, demand appears to have been down.

The total number of reservations from July to September in Kelowna and the Central Okanagan decreased an estimated 27.3% or by 13,200 reservations from 2023 to 2024. In addition to the provincial legislation changes and the City of Kelowna's STR restrictions, factors related to inflation, economic conditions, and extreme weather events may have contributed further to the decrease in reservations.

Tourism

Tourism Kelowna has compiled available research data from multiple sources to produce their initial 2024 key indicators.

The volume of passengers through Kelowna International Airport (YLW) continues to increase, surpassing passenger numbers in 2023 with over 2 million passengers in 2024. In June 2024, airline strikes resulted in more than 400 flight cancellations, which carried over into July.

Hotels saw slight improvements from July to September 2024, with occupancy up 2.2%, average daily rates rising 4.4%, and RevPAR (revenue per available room) showing minor gains. Despite these

increases, demand did not rise significantly compared to previous years. Visitor spending decreased overall by 1.7%, with a notable 14% drop in July due to a two-week heat warning. The January cold snap also negatively affected visitor spending with freezing temperatures limiting outdoor recreation and damaging Okanagan orchards and vineyards.

Kelowna's STR regulations have faced criticism from local businesses and developers. Wineries, restaurants, tour operators, construction firms, plumbing services, and home furnishing stores have claimed that a shortage of short-term rentals has hurt their summer business. Intense wildfire seasons have also impacted western Canada's tourism, with visitors avoiding peak summer due to wildfires, smoky skies, flight cancellations, and road closures. Health and safety concerns, financial risks, and inconvenience are reducing travel confidence.

Housing

One of the primary motivations behind the introduction of STR regulations locally and provincially was to address the impacts that STRs were having on local housing affordability. Following the introduction of STR restrictions, there are some potential positive indications for their impact on the housing market.

Overall, early indications suggest that affordability in the local housing market appears to be improving. Rents, which have been increasing consistently in recent years, have levelled out or are decreasing. Much like tourism, the causes of this respite could be a result of macro-economic conditions or from an increase in the supply of new rental housing coming to market.

Canada Mortgage and Housing Corporation reported in December 2024 that Kelowna's vacancy rate went from 1.3 % in 2023 up to 3.8 % in 2024. This is a level not seen in 20 years. In 2017, the vacancy rate was 0.2 per cent, and 0.6 in 2021. In 2024, the City of Kelowna has steadily been approving rezoning and development permits for rental-only buildings, so the actual increase in vacancy will be seen potentially in late 2025 and in 2026. The Bank of Canada reduced the policy rate by 50 basis points at the end of October and again in December. This is leading to more optimism in the building sector and housing market for 2025.

Statistics Canada released a study in July 2024 to assess the widespread notion that STRs limit the availability of long-term housing. Empirical analysis of their impacts produced mixed results across Canada. According to 2021 census data, of an estimated 4,596 short-term rentals in Kelowna, 1,376 could be potentially used as long-term dwellings, representing only 1.44% of total housing units available. The analysis focused on the subset of STRs, referred to as potential long-term dwellings (PLTD), to capture STR units that are not serving as anyone's primary residence, but could function as long-term housing as owner-occupied or rental units. This subset includes entire units listed for more than 180 days a year, excluding vacation-type properties. Some properties are rented as STRs but would not be available for long-term housing. Examples include vacation homes, seasonal cottages, boats, and others not suited for permanent residence. Other STR units serve primarily as long-term housing but temporarily become STRs, like student housing in the summer or snowbirds' homes in the

winter. In these cases, STRs do not reduce the supply of long-term housing but add unique rental opportunities.

On the ownership market, STR regulations could have contributed to an increase in condominium listings, in concert with market conditions. In Kelowna, listings were up across the board by 40.3-48.9% over the same time last year. Condo listings increased by the largest percentage. While the number of 2024 condominium listings increased in Kelowna, the actual number of listings that sold in 2024 were significantly lower than 2021 and 2022 sales, and generally less than half the 10-year average of listing that sold. This means that the market shifted from being good for sellers to being good for buyers, yet the purchase transactions did not follow. Increased supply and choice for housing consumers has meant that prices have begun to decline in the ownership market. Benchmark prices for all housing types were down by between 4.4 per cent and 7.8 per cent compared to the same time last year.

Summary

The data does not provide clear results. Both tourism and housing markets are complex, with STR regulations being only one factor. It is unclear if these restrictions improved housing affordability or impacted tourism. The rise in rental vacancy rates stems from more purpose-built rentals in larger developments, not an increase in secondary suites converting from STRs to long-term rentals. Economic factors and extreme weather have affected tourism in western Canada, creating uncertainty. While STR restrictions may have played a role, we cannot confirm this. Increased resources and support for STR bylaw enforcement from provincial and federal governments present an opportunity for the City to leverage.

Internal Circulation:

Development Services & Business Licensing
Policy Planning

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