

CITY OF PENTICTON

Short-Term Rental Benefits & Impacts Study



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Prepared by Third Space Planning and
EcoPlan International







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Introduction

The City of Penticton hired the consultant team to support a broad review of the current impacts of short-term rentals (“STRs”)¹ in the community, in the form of a “STR Benefits and Impacts Study.” The purpose of the study is to provide a greater depth of understanding of current benefits and harms from STRs – and associated trade-offs – and to inform discussions about potential changes to the City’s STR regulatory program going forward.

The study includes findings from:

- **A Data Analysis** – including data provided by the City and a range of external sources pertaining to Penticton’s short-term rental, “traditional accommodation,”² and housing markets.
- **Community Consultation** – including stakeholder interviews, an STR operator focus group, and an STR operator and community survey.

These findings – and our interpretation of them – are summarized in a “Summary of Impacts” section, with all of the detailed individual findings and interpretive discussion – including about the related trade-offs – provided thereafter.

The study concludes with a section outlining a range of regulatory options Council could consider to address the impacts identified in this study, understanding that Council would first need to confirm and clarify its goals for the City’s STR program going forward.

Additional context is provided in an Appendix that seeks to respond to questions raised by both staff and Council throughout the project period. A complementary “Enforcement Audit” is being conducted and will provide recommendations to streamline and increase compliance with the City’s STR program and processes.

¹ The City of Penticton refers to vacation rentals and short-term rentals interchangeably. In this report short-term rental is typically used, instead of vacation rentals. Short-term rentals are guest accommodations operating in residential neighbourhoods (not hotels, motels, resorts).

² This term is used throughout to refer to Hotels, Motels, Resorts, Inns and traditional B&Bs.

Policy Context

The City's STR regulatory framework was developed in 2010 with the program goal to "allow property owners to rent safe and healthy dwellings to the vacationing public while limiting nuisances to the surrounding neighbours."³ The current framework is described by the City as "STR friendly" and can be considered strongly permissive.

In recent years, questions have been raised about whether and to what extent STRs are harming housing availability and affordability, and other accommodation providers, and how these and other concerns should be weighed alongside the benefits that STRs can bring, for example their ability to add a greater number and more diversity of accommodation options.

Overarching policy context

Penticton's Official Community Plan (OCP), 2019 recognizes that tourism and events are a significant contributor to the City's economic wellbeing. Penticton is a tourist destination with related tourist commercial services concentrated in the downtown (Main and Front Streets), waterfront and high-amenity areas such as the Northern Gateway and Skaha Lake Road.

The OCP expresses a goal to 'increase the availability of housing across the housing spectrum' (4.12) and recognizes that tourist accommodations in residential neighbourhoods should be monitored. Section 4.1.2.10 of the OCP states that City will 'monitor vacation rentals to ensure they do not have a negative impact on the long-term rental stock or negative social impacts on existing neighbours and/or neighbourhoods. Refine vacation rental policy and regulations if necessary'.

The City's vacation rental regulations and management program consists of several related bylaws including: Zoning Bylaw, Business Licence Bylaw, Fees and Charges Bylaw, Municipal Ticket Information and Bylaw Notice Enforcement.

Current regulatory program

The City of Penticton refers to vacation rentals and short-term rentals interchangeably. The City defines vacation rental in the Zoning Bylaw as 'the rental of a dwelling unit to the vacationing public for a period of one (1) month or less. Rentals of a dwelling unit for less than 14 days in a calendar year are not considered vacation rentals'.

In the Zoning Bylaw, 2021-01, vacation rentals are permitted in all residential, agricultural zones and all commercial zones that permit dwelling units.

There is a limit of one STR per property (except in the case of multi-family properties), and a limit of no more than 2 guests per bedroom.

Otherwise, there is no limit on the number of STRs in the community. Any homeowner or resident who wishes to operate an STR can do so, so long as it is in a legal dwelling and meets basic health and safety conditions.

STRs are categorized according to their intensity of use (including number of nights per year and number of guests), with business licence fees increasing with the intensity of use.

Summary of Impacts

This report contains a detailed accounting of the current scale of STR activity in Penticton and its assessed impacts on Penticton's accommodation, tourism and housing markets. Through it all, a summary picture emerges that is consistent with the documented experience of many communities across North America.

In short, the impacts of STRs in Penticton are driven by units where no one lives (a.k.a. non-principal residence units), and are unevenly distributed, with some local residents benefiting (including STR operators and guests), and others harmed (including local renters and first time home buyers).

The benefits of STRs include clear and positive contributions to Penticton's current stock of accommodation (especially larger, amenity-rich units and during peak season), with STR guests generating a historical average of \$7.4 million in annual revenue for operators and driving an estimated 25% of annual tourist spending in 2022, with an estimated 250 local operators currently using STR units as "mortgage helpers."

The harms of STRs include marketwide decreases in housing availability and affordability for both renters and homebuyers, with Penticton's thousands of tenant households estimated to have paid a historical average of ~\$8 million in total annual additional rent as a direct result of non-principal residence STRs (estimated at ~200 units/lost potential homes in 2022). Though not quantified in this study, costs to buy a home will also have increased as a result. These negative impacts are catalyzed by the City's extremely tight housing market, which is characterized by an ~8% current shortfall in the housing stock and an ultra-low vacancy rate of 0.8%. In a hypothetical reality where there was an abundance of local housing, available studies suggest the negative impacts of STRs on housing affordability would be dramatically reduced (if not entirely eliminated).

BENEFITS

Between 2019 and 2022, total annual STR market revenue increased from \$6.3 million to \$14.3 million, with a 52% increase from 2021 to 2022.



HARMS

Penticton has a 0.8% rental vacancy rate. A vacancy rate of 3-5% is considered an ideal target by CMHC. To go from a 0.8% to 3% the City would first need to clear the backlog (~1,400 new homes), keep up with growing demand while those are built, and then add a bare minimum of 150-200 new rental units on top of that.



STRs were also identified as negatively impacting traditional accommodation providers: both through direct competition – particularly in the shoulder and low seasons – and by making it more difficult for staff to find affordable housing.

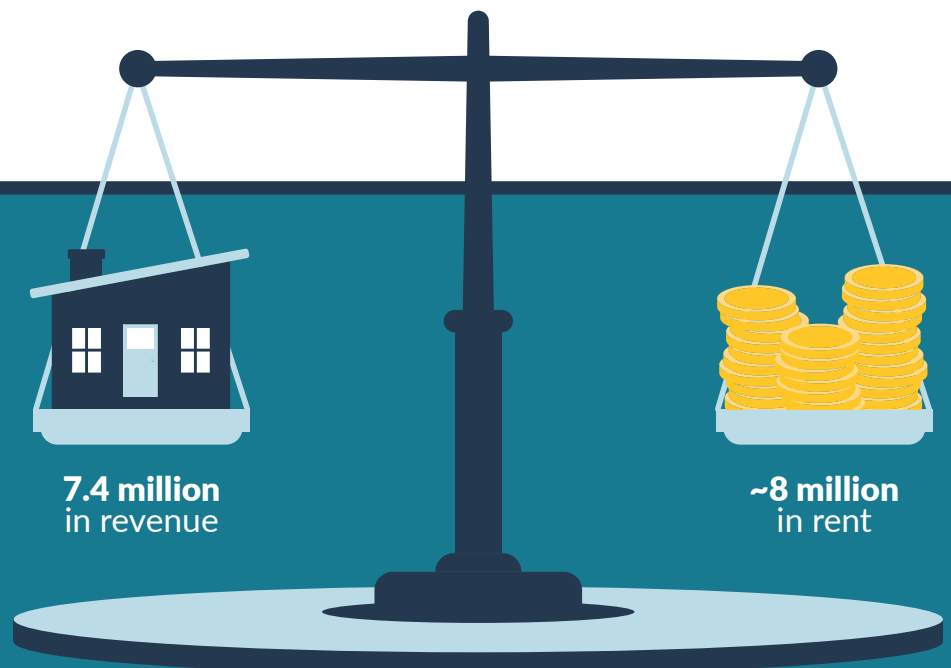
The above combination of benefits and harms makes it difficult to draw conclusions about the net impact of STR activity on Penticton's economy. For example: STR-related revenue earned by local operators and local spending by STR guests will be counteracted by (a) decreased local discretionary spending by Penticton tenants and home buyers as a result of STR-induced rent and home price increases, and (b) foregone local spending by year-round residents that may have otherwise occupied some of the STR units (economic contributions from full-time residents will often exceed contributions made by guests for any given unit). It is also difficult to assess counterfactual scenarios where e.g. traditional accommodation providers were allowed to/ systematically incentivized to, upgrade and expand to accommodate demand in the absence

of STR competition (in terms of both number of units and their diversity/amenities). Given the above, we cannot say with confidence whether STRs are a net benefit or harm to Penticton's overall economy.

The way forward – whether maintaining the regulatory status quo or making adjustments – involves making trade-offs and prioritizing between the interests and needs of different groups of people. In making these trade-offs it will be important to confirm Council's prioritized goal(s) for local STR regulations.

TRADE-OFFS

A few hundred STR operators have earned a historical average of \$7.4 million in total annual revenue/income. Meanwhile, Penticton's thousands of tenant households are estimated to have had to pay a historical average of ~\$8 million in total annual additional rent, as a direct result of the commercial/Frequently Rented Entire Homes component of this STR activity.



Data Analysis

This section of the study includes key findings from an analysis of data provided by the City and a range of external sources pertaining to Penticton's short-term rental, traditional accommodation, and housing markets.

SHORT-TERM RENTAL MARKET

Number of units

There are two big complications when determining the number of STR units in any given community: (1) The first is that STR units are constantly “switching off and on” based on the season or in response to various circumstances of the owners. By comparison, rooms in so-called “traditional accommodation” (hotel, motel, resort, inns, B&Bs) are easier to count because operators generally keep them on/listed year-round; (2) the second complication is that we currently rely on third party data providers to scrape STR information from the various online platforms. Each data provider uses their own methods and their own definitions of what constitutes an “active” STR unit, and availability of data for different years also varies.

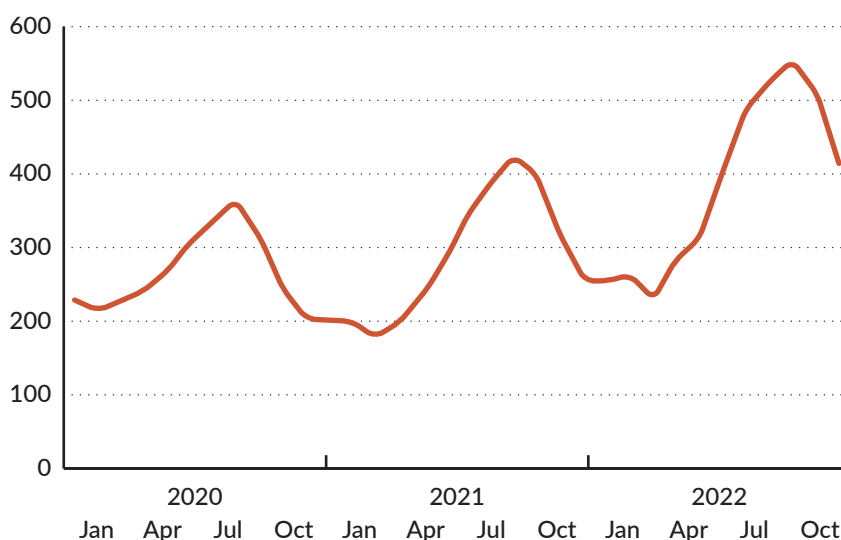
Because of these complications, there's no single answer to the question of “how many STRs are in Penticton?” Instead, we can provide *six different answers* that – together – speak to the size of Penticton's STR market:

- **It's seasonal:** As shown in the chart, Penticton's STR market is highly seasonal, with the number of active listings roughly doubling during the peak summer season (more than doubling in 2022), and then dropping back down for the rest of the year.⁴

Understanding that STR activity is seasonal, we can now turn to annual figures to get a better sense of overall activity and long-term trends.

- **At minimum:** At bare minimum, we know that the City of Penticton had at least 322 STRs in 2022 because that is the number of business licenses issued.⁵
- **At maximum:** Because not all operators are licenced, we must rely on third party data providers to obtain estimates of the *actual* number of STRs in Penticton. These estimates range from a rough maximum of 503 active listings⁶ to 566 active listings⁷ in 2022.⁸

Number of STR Listings (monthly, AirDNA)



4 Source: AirDNA, accessed Nov 2022. “Active listings”, here, means the number of STR units listed on AirBnb and VRBO (including HomeAway) that were available or booked for at least one day in the associated month.

5 Source: City of Penticton business licensing data.

6 Source: Granicus/Host Compliance. This figure represents Granicus’ “active listings” metric, which counts all listings available (not necessarily booked) for at least one day in 2022.

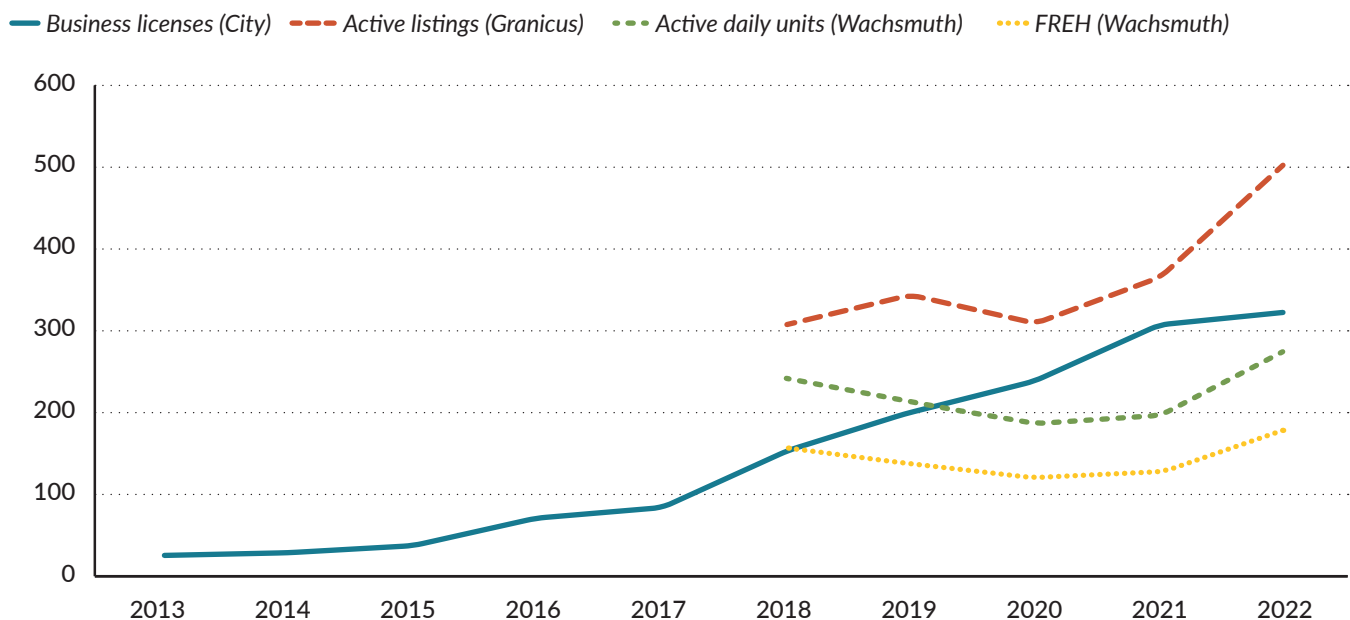
7 Source: AirDNA figure for Q3 (peak season) of 2022 (accessed Jan 26, 2023). This figure only captures listings on AirBnb and VRBO, will not include listings that were only active in Q1, Q2 or Q4, and it is not totally clear to what extent this figure includes duplicate listings.

8 We treat these as “rough” estimates because (a) they both likely contain duplicate listings of various kinds and/or (b) may fail to catch some listings e.g. advertised privately. The authors are somewhat clearer about the methodology of, and therefore more confident in, the 503 estimate provided by Granicus/Host Compliance.

- **Hotel equivalent:** Total aggregate STR availability in 2022 was equivalent to ~275 full-time hotel units.^{9,10}
- **Non-residences:** The impacts of STRs on housing availability and affordability are largely driven by dwelling units where no one lives (in this study referred to as non-principal residences). Estimates for the number of non-principal residence STRs in Penticton during 2022 range from 178¹¹ to 216.¹² If one splits the difference at 200 units or so, this means ~40% of STR listings in 2022 were non-principal residences.
- **A growing number:** The final answer we can provide is that the number of STRs in

Penticton is growing rapidly. Three different methodologies all show a 38-40% growth from 2021 to 2022.¹³ The following chart plots four of the key metrics discussed above, over time, to get a sense of longer-term trends. This chart reveals that the number of active STR units between 2018 and 2020 stagnated as the pandemic took hold, but then began increasing sharply thereafter, with the aforementioned 40% growth in active units in a single year between 2021 and 2022. Aggregate STR *availability* dropped 22% between 2018 and 2020, but has bounced back sharply since, with 2022 levels estimated to have been 14% higher than in 2018.¹⁴

Number of STRs in Penticton and Growth Over Time



⁹ Because the number of "active units" (e.g. in the maximum estimates) in a given year will include some units rented only for a few days, others rented for the majority of the year, and still others rented only for e.g. the peak season, it becomes necessary to determine what all of this varied availability "sums up to." For this, we can turn to a measure called "active daily listings." This measure was developed by Dr. David Wachsmuth, McGill University, and arguably provides the most accurate single estimate of STR market scale in a given community. It is calculated by identifying the number of STR listings available or reserved on *each individual day of the year*, and then averaging this number over a chosen time period, essentially translating aggregate STR availability into what you can think of as an equivalent number of full-time hotel units. The biggest limitation of this particular 275 figure is that it is (a) an extrapolation from the first four months of data from 2022 (we apply the 4-month year-over-year growth rate to the annual 2021 figure to produce the 275 total for 2022); and (b) this measure pulls source data from AirDNA, which only captures listings on Airbnb and VRBO and therefore will slightly underestimate actual STR activity.

¹⁰ Source: Wachsmuth, raw data provided via personal correspondence.

¹¹ This is the best-available estimate of the number of "Frequently Rented Entire Home (FREH)" listings in 2022. FREH listings are those that are available for more than 183 days and booked for at least 90 days in a 365 day period, and as such considered unlikely to be someone's principal residence. The 178 estimate is calculated thus: the 2022 "active daily listing" estimate of 275 (see footnote 9) is multiplied by 64.8%, which is the long-term average percentage of "active daily listings" in Penticton that were FREH between 2018-2021 (source: David Wachsmuth, School of Urban Planning McGill University, December 2022. "Commercial short-term rental trends in Penticton". Pg 2).

¹² City of Penticton business licence data reveals that 57% of licensed STR operators in 2022 were principal residents who lived on the STR property, with 43% of licensed operators living at an address that was different from their STR property. Multiplying the 43% figure by the estimated total/maximum number of active units in 2022 (503) produces an estimated number of non-principal residence STRs of 216.

¹³ "Active Daily Listings" grew 40% 2021-2022 (Source: David Wachsmuth, data provided via personal correspondence; 2022 annual figure is an extrapolation from the first four months of available data); AirDNA "active listings" grew 38% 2021-2022 (Source: AirDNA, accessed November 2022); "Active listings" identified by Granicus/Host Compliance grew 38% 2021-2022 (Source: Granicus/Host Compliance).

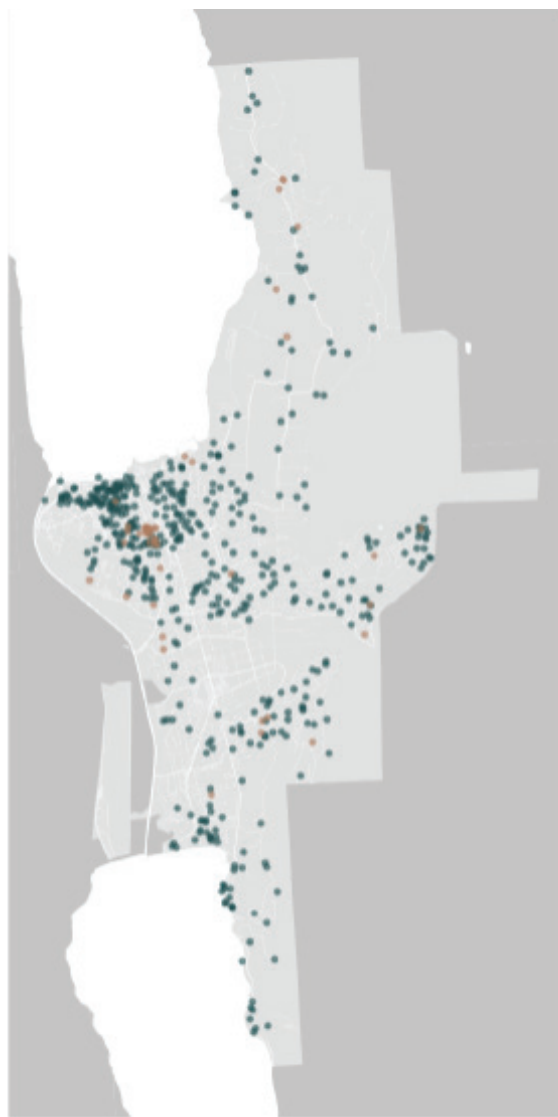
¹⁴ Availability assessed via the "active daily listing" metric (source: David Wachsmuth, via personal correspondence; 2022 annual estimate produced via an extrapolation as explained in footnote 9).

Compliance and complaints

- **Compliance rate:** 322 licensed units out of ~503 active units equates to a basic licensing compliance rate in 2022 of 64% (36% of listings being unlicensed).
- **Complaints:** Between 2015 and 2022 there were 110 STR-related complaints involving a total of 14 properties (largely unlicensed properties). The main cited concern has been impacts to neighbourhood character, followed by disturbances/noise.¹⁵

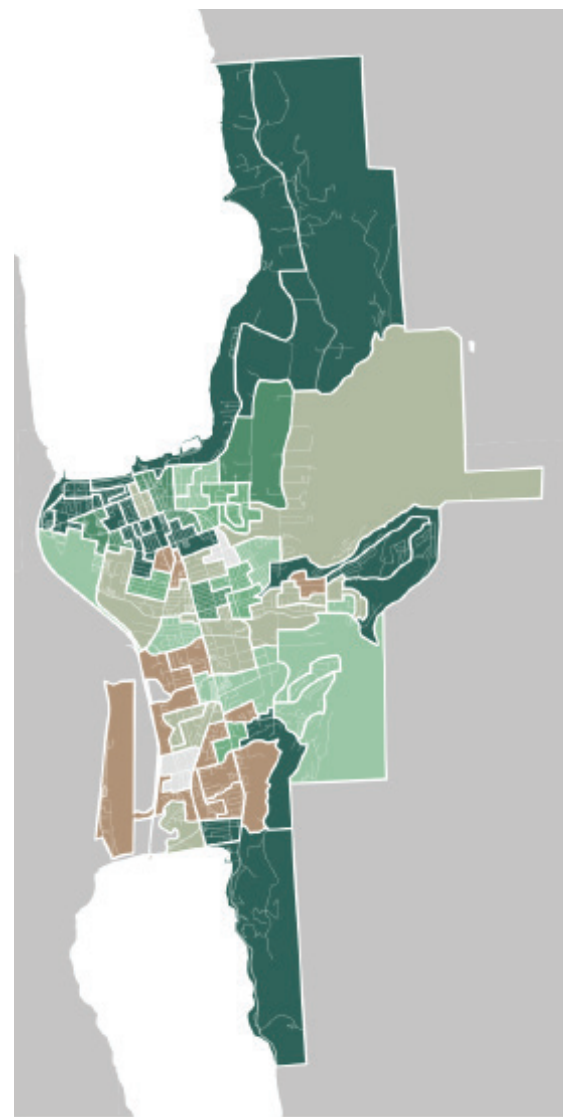
Distribution

- STRs are fairly concentrated in the downtown (Main and Front Streets), waterfront and areas such as the Northern Gateway and Skaha Lake Road. The following figure maps STR listings as a % of total dwelling units, showing a higher relative number of STRs in the downtown and along the Northern Gateway, Naramata Road and Lake Road.



STR listing distribution

● Entire home/apt ● Private room



STR listings as % of dwelling units

0% 1% 2% 3% 4% 5% 6%

¹⁵ Source: City of Penticton

Revenue

STR revenues vary greatly by season, and type and frequency of rental listing. Select statistics include:

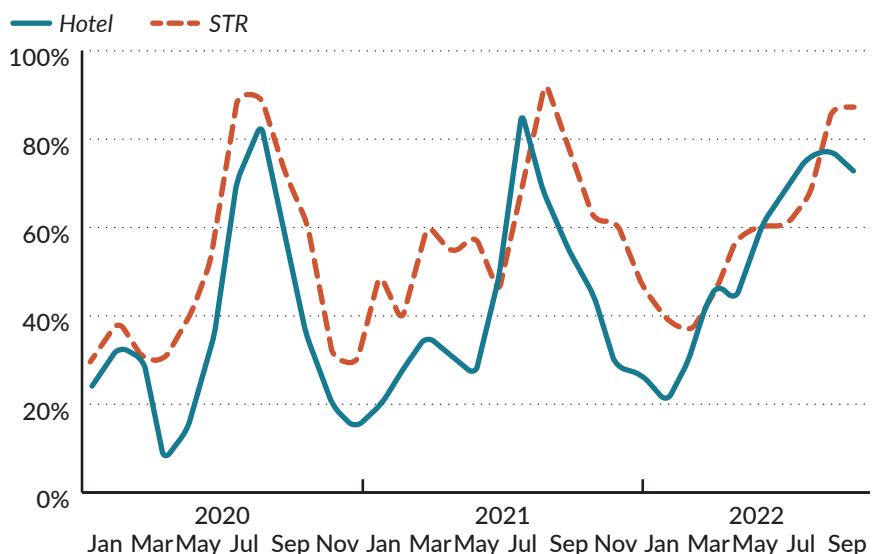
- **Total operator revenue:** Between 2019 and 2022, total annual STR market revenue increased from \$6.3 million to \$14.3 million, with a 52% increase from 2021 to 2022.¹⁶
- **Seasonality:** Monthly revenue averages range from a low of \$1500 in January 2022 to high of \$10,100 per month in August 2022.¹⁷
- **Average annual revenue:** Average annual revenue for an STR unit in 2022 was \$48,180.¹⁸
- **Predicted revenue:** AirDNA's "Rentalizer" tool predicts an annual revenue of between \$29,200 to \$32,000 for a 1 bed/1 bath/2 guest unit; \$38,300 and \$42,400 for a 2 bed/2 bath/4 guest unit; and \$49,700 to \$55,200 for a 3 bed/2 bath/6 guest unit.¹⁹
- **Revenue by percentile:** Top-earning operators (90th percentile) earned an average of \$84,036 in 2022. 75th percentile operators earned an average of \$52,576. 50th percentile operators earned an average of \$31,766. And the lowest-earning operators (25th percentile) earned an average of \$18,288.²⁰
- **Daily rates:** The 2022 annual average daily rate for all STRs was \$240/day, and monthly averages for daily rates ranged from \$188/day (Nov) to \$330/day (Aug).²¹

- **Total visitor contribution:** If you utilize Travel Penticton's rough assumption that a visiting party's accommodation spend is 25% of their total spend, then STR guests locally spent ~\$57.2 million in 2022.²¹
- **Government revenue:** In addition to the 7% PST that all STR platforms are now required to collect/remit, individual STR operators contributed \$106,183 through the online accommodation provider (OAP) portion of the municipal regional district tax (MRDT), in 2022.²²

Miscellaneous market statistics

- **Occupancy:** As shown by the chart below, STR occupancy rates - as with Penticton's hotels - are also highly seasonal, with over 90% occupancy from July to September and 30% from November to February 2022.²³ STR occupancy rates have tended to be higher than hotels in the low season, in part due to

Hotel and STR Occupancy Rates, by month (2020-2022)



16 Source: AirDNA, accessed Mar 23, 2023. These revenue figures are ~5% higher than those provided by Wachsmuth, who explained the discrepancy - via personal correspondence - as resulting from various data cleaning/duplicate removal processes his lab applies to raw AirDNA data. As such, the cited AirDNA figures should best be interpreted as a slight overestimate.

17 Source: AirDNA, accessed Mar 23, 2023.

18 Calculating average revenue is complicated somewhat by the "on/off" nature of STR units. This particular estimate was calculated by taking the average daily rate for 2022, across all units, of \$240 (source: AirDNA), multiplying by 365 days in a year, and then multiplying by the average 2022 occupancy rate of 55% (source: AirDNA).

19 Source: AirDNA, accessed Mar 24, 2023; these figures are for year-round/dedicated STRs.

20 Source: AirDNA, accessed Mar 23, 2023.

21 Calculation: \$14.3 million in total market revenue in 2022 (source: AirDNA) x 4 = \$57.2 million

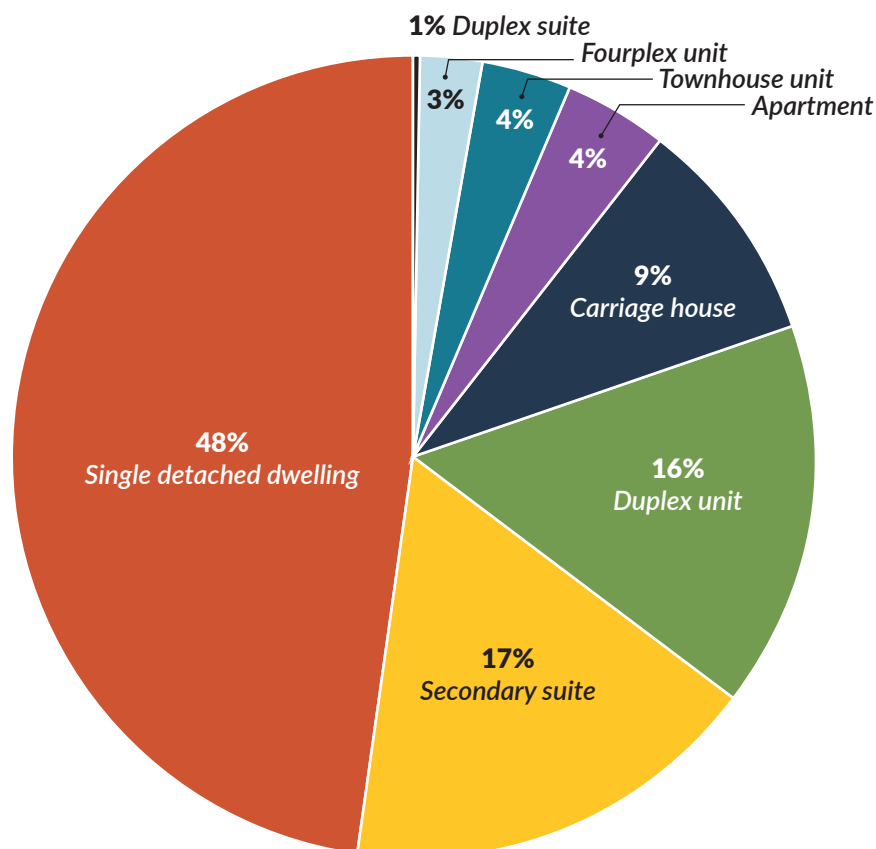
22 Source: City of Penticton Finance Department, April 2023. The MRDT was introduced in 1987 by the BC Provincial government to provide funding for local tourism marketing. The MRDT is an up to 3% tax applied to the sales of short-term tourism accommodation. The City is the applicant for the tax rebate and directs all funds to Travel Penticton. As of July 2022, the City and Travel Penticton have agreed that the Online Accommodation Providers portion of these funds may be directed to a housing reserve fund, with the intent that they will be used to support tourism staff housing, as this is an identified need in the community.

23 AirDNA, November 2022

many STR units delisting during these periods. There is a notable uptick in rentals in late February and March, which may be attributed to school holidays and hockey school camps.

- **Booking nights:** In 2022 there were a total of 53,264 listing nights booked.²⁴
- **Peak monthly booking demand:** A peak of 472 STR properties listed on Airbnb and VRBO were booked in the month of August 2022.²⁵
- **Platforms:** The majority of STR operators advertise listings on Airbnb (64%). Many operators advertise on multiple platforms. Advertising platforms also include VRBO (19%), HomeAway (11%), Booking.com (5%), Vacation rentals (0.1%).²⁶ An estimated 22% of vacation rental units are listed on both Airbnb and VRBO.²⁷
- **Listing type:** According to Granicus, 95% of STR listings – *across all platforms* – are for ‘entire homes’, which means they are either a single-family home, self-contained suite or apartment (with 5% being private rooms in homes).²⁸ AirDNA – which only captures Airbnb and VRBO (inc. HomeAway) – reports 85% of STR listings are ‘entire home rentals’, with 15% being ‘private room.’²⁹
- **Housing type:** According to City business licence data, 48% of short-term rental units in 2022 were in single detached dwellings, followed by secondary suites, duplex units, carriage house, apartment, townhouse unit, duplex unit and duplex suite³⁰.

Active STR Licences by Unit Type



²⁴ Source: AirDNA, accessed March 24, 2023.

²⁵ AirDNA, accessed Jan 26, 2023.

²⁶ Granicus/ Host Compliance, December 2022. Listing platform breakdown – 675 active listing, AirBNB 434, VRBO 126, HomeAway 72, Booking.com 35, Vacation Rentals 1.

²⁷ AirDNA, December 2022.

²⁸ Granicus/ Host Compliance, December 2022. Rental unit type – 263 active listing entire home /apartment; 14 entire home or private room; 3 private room.

²⁹ AirDNA, December 2022.

³⁰ City of Penticton Business Licence data, November 2022

TRADITIONAL ACCOMMODATION MARKET

In this report the phrase “traditional accommodation” is used to refer to hotels, motels, resorts, inns, B&Bs, as identified and tracked by Travel Penticton.

Number of units

- **Total “fixed roof” rooms:** 1901 rooms across 41 properties³¹
 - 842 Hotel rooms³², plus 121 rooms currently under construction (Four Points Sheraton is scheduled for completion June 2023)
 - 415 Motel rooms³³
 - 514 Resorts/ Inns³⁴
 - 9 Bed and Breakfast³⁵ (4 rooms or more)
- **Fluctuation:** Fixed roof room counts fluctuate over the years. A new hotel, with 121 rooms, is currently under construction. Some fixed roof tourist accommodations have experienced conversions for a variety of reasons, such as aging and repurposing of buildings. BC Housing purchased a 54 room motel (formerly Super 8) to convert for those in need of long-term affordable housing. Grenada Inn, a 19 room motel, is now exclusively available for monthly rentals. Some buildings are aging and in progress with converting from hotels to motels. In 2021, total number of fixed roof rooms was 1,802. In 2023, with the completion of Four Points Sheraton construction in June 2023, the total fixed roof room count will be 1901 rooms. This represents a net gain of 101 rooms in the past two years.

Revenue

- **Total room revenue:** Total room revenue in 2022 was estimated at \$43,083,478. This has rebounded from a pandemic low in 2020 of \$28,959,567.³⁶
- **Total visitor contribution:** The rough methodology used by Travel Penticton is to assume that accommodation accounts for 25% of total visitor spend, which would suggest that these guests contributed ~\$172 million to the local economy in 2022.
- **Government revenue:** traditional accommodation providers paid/forwarded – in addition to 7% PST – a total of \$1,040,689 in municipal regional district tax (MRDT) was collected in 2022.³⁷ to be directed towards local tourism promotion.
- **Daily rates:** Average hotel/motel rate in 2022 was \$193.³⁸

Miscellaneous market statistics

- **Occupancy:** Hotel occupancy rates experience high seasonal fluctuations in Penticton. Highest occupancy is 90% in summer months from July to September and lowest occupancy is 10-30% from January to March.
- **Number of booking nights and visitors:** 332,020 in 2022, accommodating an estimated 387,848 visitors.³⁹

31 Travel Penticton, January 2022.

32 Travel Penticton, January 2023. Hotels - Best Western Inn (64), Days Inn (105), Fairfield Inn (98), Hotel Penticton (36), Lakeside Resort (273), Ramada (125), Sandman (141). Total 842.

33 Travel Penticton, January 2023. Motels - 5000 Motel (28), Beachside (26), Black Sea (25), Bowmont (46), Carmi Motor Inn (23), Edgewater (12), Empire (33) Flamingo (24), Holiday House (15), Plaza (21), Riverside (48), Sunny Beach (22), Super 8/ Pass Motor (46), Travellers (31), Valley Star (15). Total 415.

34 Travel Penticton, January 2023. Resorts/ Inns - Apple Tree (23), Barefoot Beach (12), Casa Grande (6), Golden Sands (44), Hi Penticton (47), Kettle Valley Beach (30), Lakeside Villa (16), Munson Mountain (8), Okanagan Lakefront (36), Sahara Courtyard (50), Shoreline (44), Slumber (48), Spanish Villa (64), Swiss Sunset (25), Tiki Shores (41), Waterfront Inn (20). Total 514.

35 Travel Penticton, January 2023. Above the Beach B&B (5), OK Whistle Stop B&B (4). Total 9.

36 Source: Travel Penticton; estimate derived by extrapolating data from a sample of 8 hotel properties.

37 City of Penticton Finance Department, December 2022.

38 Source: Travel Penticton

39 Source: Travel Penticton

HOUSING MARKET

Current population and housing stock

- Population of 36,885.⁴⁰
- 18,457 private residential dwellings/households.⁴¹
- 63% of households own their home (10,985), 37% are renters (6,375 households).⁴²
- 17,361 dwellings occupied by usual residents (94%). I.e. 6% of dwellings (1,096) are not used as residences.
- 15,696 residential taxation properties.⁴³

Housing need

- ~ 1,400 additional homes are needed to meet *current* basic housing demand,⁴⁴ with the greatest need associated with people aged 65-84,⁴⁵ often best served by one-bedroom homes and seniors housing.
- Penticton has a 0.8% rental vacancy rate⁴⁶ (rates have been 2% or less since 2016).⁴⁷ A vacancy rate of 3-5% is considered an ideal target by CMHC. To go from a 0.8% to 3% vacancy rate one might roughly assume the City would first need to clear the backlog (~1,400 new homes), keep up with growing demand while those are built, and then add a bare minimum of 150-200 new rental units on top of that.⁴⁸

Housing affordability (ownership)

- 15.2% of owner households (1,659) currently spend more than 30% of their income on shelter costs (i.e. their current housing is considered unaffordable).⁴⁹
- 5.9% of owner households (644) are in “core housing need.”^{50,51}
- The average cost of a single-family home in 2022 (\$740,000) is 14% higher than in 2021, and 85% higher than in 2011.⁵² Median assessed value of all housing in Penticton has increased steadily over the past 16 years, and sharply (33%) between 2019 and 2022.⁵³
- Overall, in Penticton “homeownership [is] out of reach for many, particularly those who currently rent their dwelling.”⁵⁴

Housing affordability (renting)

- 44.2% of renter households (2,820) currently spend more than 30% of their income on shelter costs (i.e. their current housing is considered unaffordable).⁵⁵
- 24.3% of renter households (1,550) are in “core housing need.”^{56,57}
- The average monthly rent in 2021 (\$1,076) is 55% higher than in 2011, with specific 10-year increases ranging from 39% for a bachelor (to \$767 in 2021), 41% for a 1-bedroom (to \$941 in 2021), 55% for a 2-bedroom (to \$1,230 in 2021), and 75% increased rents for a 3+ bedroom (to \$1,633 in 2021).⁵⁸

40 [2021 Census](#)

41 [2021 Census](#)

42 [2021 Census](#)

43 <https://pentictonbiztoolkit.com/>

44 This estimate was provided in the 2021 RDOS Housing Needs Assessment (pg. 42), corresponding to a projected population of 36,530, which the City has already surpassed as of the 2021 census. This estimate does not take into account homes built since the 2021 Housing Needs Assessment.

45 RDOS Housing Needs Assessment, 2021. Pg. 42

46 Canadian Mortgage and Housing Corporation, 2021 yearly rental market survey. <https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-data/data-tables/rental-market/rental-market-report-data-tables>

47 RDOS Housing Needs Assessment, 2021.

48 This is a rough calculation based on the 2021 census figure of 6,375 rental households. The housing market is dynamic, and as such this figure is provided for illustrative purposes only.

49 [2021 Census](#)

50 [2021 Census](#). Core housing need means the household is currently living in a home that costs more than 30% of their pre-tax income or is in need of repair or overcrowded, and where they would have to spend 30% or more of their total pre-tax income to pay the median rent of alternative local housing that is acceptable (attains all three housing indicator thresholds).

51 I.e. ~1,015 of the 1,659 owner households cited above are not considered in core housing need because they are considered theoretically able to find acceptable alternative housing in the rental market that is affordable. However, Penticton's 0.8% vacancy rate rental market makes this theoretical notion unrealistic for many.

52 South Okanagan Real Estate Board Statistics, November 2022.

53 BC Assessment Authority, December 2022

54 RDOS Housing Needs Assessment, 2021. Pg 45 “In Penticton, the average household income is approximately \$54,384, making homeownership out of reach for many.”

55 [2021 Census](#)

56 [2021 Census](#). See footnote 50 for a definition of core housing need.

57 I.e. ~1,270 of the 2,820 renter households cited above are not considered in core housing need because they are considered theoretically able to find acceptable alternative housing in the rental market that is affordable. However, Penticton's 0.8% vacancy rate makes this theoretical notion unrealistic for many.

58 Canadian Mortgage and Housing Corporation, 2021 yearly rental market survey. <https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-data/data-tables/rental-market/rental-market-report-data-tables>

Community Consultation

To better assess the concrete impacts, related to STRs in Penticton, this project incorporated interviews with a range of stakeholders, an STR operator focus group, an STR operator survey, and a community survey.

STAKEHOLDER INTERVIEWS

Informational interviews were held with business stakeholders between November 2022 and December 2022.

Summary findings

The tourism sector, including retail trade, accommodation and food services, are a significant share of the local economy. Health care and social assistance are also top employment sectors.⁵⁹ A recurring theme is that employers are attributing staff shortages to lack of affordable rental housing supply. Lack of housing has become a barrier to staff recruitment and retention in the City's principal business sectors including tourism, health care and higher learning.

Stakeholder-specific notes

- **Travel Penticton⁶⁰** – ‘Accommodators of Penticton...house approximately 725,500 visitors per year, generating approximately \$126 million in tourism revenue....have identified five key issues, we feel need to be addressed at the municipal level.’ 1) Increasing the supply of housing for workers, staff accommodation for all businesses is “one of the largest impediments to tourism growth in this region”. 2) Regulating vacation rentals, for high permit compliance rates and collecting appropriate fees for management oversight. 3) Favour regulating vacation rentals with principal residency requirement. 4) High seasonality greatly affects occupancy rates, which fixed-roof accommodation providers are challenged to keep businesses operating. Seek limits on vacation rentals -STRs have unfair low overhead cost advantage. 5) Adverse effects on residential neighbourhoods, hidden costs on community for policing and bylaw enforcement demands of vacation rentals.
- **Chamber of Commerce⁶¹** – Supportive of principal residency requirement for STRs. Oversight is important and believe STR owners should be on property or have designated responsible person nearby. Not supportive of investment property STRs, due to greater housing need for people who want to live in the community full-time. Significant housing shortage for staff is impacting businesses’ ability to operate and provide tourist visitors’ needs. Chamber of Commerce focus at this time is on long-term housing for workers. BC Chamber and local Chamber agree that *Residential Tenancy Act* has become a barrier to finding long-term renters. Current long-term rental regulations are too far in favour of tenant rights, which makes short-term rentals a preferable option for homeowners. Need faster system of reviews and hearing disputes i.e. tenants not paying rent, but don’t have to move out, while a dispute is in progress, which can take 6-12 months.
- **Penticton Trade and Convention Centre, Director of Sales** – The centre is 50 years old and data shared on events attendance for the past 10 years. The convention centre supports event organizers with ‘block bookings’ at local hotels, where room discounts and incentives are provided for visitors to use commercial accommodation providers. In 2022 there were 46,392 delegates that used the conference facility. There is no data collection system in place to confirm where event participants stay. The director of sales explained that ‘to the best of our knowledge these delegates stay at hotels/ motels in the South Okanagan area’

⁵⁹ Source: Penticton Business Toolkit <https://pentictonbiztoolkit.com/>

⁶⁰ Informational Interview, Jo Charnock, Office and Special Projects Manager, Travel Penticton, November 29, 2022. Letter to Mayor and Council from Jessica Dolan, Chair of Board, 2022 (not dated)

⁶¹ Informational Interview, Michael Magnusson, Executive Director, Chamber of Commerce. December 1, 2022.

- **Penticton Regional Hospital & South Okanagan General Hospital⁶²** – Interior Health services and the Regional Hospital are experiencing significant staffing shortages. Some healthcare service portfolios have up to 60% staff shortage. Inadequate housing supply and cost in Penticton has become a significant issue for staff recruitment. Even physicians are withdrawing accepted offers when they see costs of housing. For care aids, with lower salaries, housing is even more untenable. STRs exacerbate loss of long-term rental housing supply and housing costs. Staff recruitment and retention is being negatively affected by housing shortage and high costs of ownership and rental housing. Interior Health is prohibited from financially incentivizing working in a particular location due to collective agreement language. It would be helpful if could collaborate with City to provide other incentives such as: free recreation centre memberships, welcome packages for new staff in the area, providing balanced information when issues arise and expressing gratitude to IH teams for the care they provide.
- **Okanagan College⁶³** – Approximately 1000 academic students and about half are out area, needing rental accommodations in the community. There are no residences on campus. Most students now use happipad.com, for affordable shared accommodation/rooms in homes, not subject to *Residential Tenancy Act*. STR's provide options, however high cost is not realistic for the majority of students and even staff. When fall semester starts, most STR operators continue for the month of September and longer-term housing is only available with October 1st start (have heard of people couch-surfing for month of September). There is a strong financial incentive for STRs to maximize revenues July to end of September, which is a challenge for Okanagan College semesters that start first week of September. Housing has become a barrier to student enrollment. Manager of Campus life has heard that trades students are choosing not to come to Okanagan College

because of lack of housing (this includes welding, carpentry, electrical, mechanical, plumbing, nursing). Housing is also an issue for faculty and staff retention and recruitment. Have lost staff to UBC Okanagan because they are able to secure housing in Kelowna and not willing to travel during winter conditions.

- **Lakeside Resort and Conference Centre⁶⁴** – STRs compete with hotels for revenue and diminish long-term housing for tourism staff. STRs put tourist commercial businesses out of work as they have an uneven advantage (low operating cost). Lakeside resort has 330 staff and most are in need of long-term rental housing. Support principal residency STRs for immediate family only. Do not support any other kind of STR.
- **Okanagan Hockey Group⁶⁵** – Affordability is a key issue for visiting the area and Penticton has turned into an expensive destination place. Believe that STRs help fill a void, providing additional supply of accommodations. Hockey academy program runs 10 months, with 150 athletes per year in Penticton. Most from Kelowna and can travel daily. Players from afar are placed in billet homes. During Canadian sports school hockey league playoffs every March (first 2 weeks), 80 teams play. Approximately 1600 attendees, plus families, an estimated 5000 people come for the league playoffs. Hotels provide team rates/ discounts for families and take up all the available space during that tourism 'soft period' in March. In summer, hockey school has 8 back-to-back, week-long camps (July to August). Approximately 1600 attendees, who are mostly out of town participants. Hotels and motels provide discounts, and some also use STRs. Don't have data on where hockey school participants and families stay. Demographic of hockey camps is younger families (7-12 years old), looking for ways to make affordable vacation, and making meals themselves to reduce costs. Over past 5 years, program return rate for hockey school has dropped 55%, due to affordability, based on survey feedback.

⁶² Informational Interview. Sara Evans, RN, MScN, Director, Clinical Operations. December 13, 2022.

⁶³ Informational Interview, Juliana Buitenhuis, Manager of Campus Life and Administration. December 15, 2022.

⁶⁴ Informational Interview, David Prystay, Lakeside Resort. December 8, 2022.

⁶⁵ Informational Interview, Blair Noel, Vice President, Okanagan Hockey Group. November 30, 2022.

STR COMMUNITY SURVEY

The City of Penticton's engagement site 'Shape Your City Penticton' hosted an online survey open for residents input from January 9-27, 2023.

Residents survey input is summarized below:

- 1102 survey forms were completed, indicating a very high level of interest in this topic
 - 78% of respondents were homeowners; 16% were renters
 - The reason given for filling in the survey: 40% of respondents were interested in the community impact of STRs; 13% were looking for housing
 - 51% of residents do NOT support the City's current STR management program goal to "allow property owners to rent safe and healthy dwellings to the vacationing public while limiting nuisances to the surrounding neighbours."
 - 48% would like the City's STR management regulations to result in fewer STRs, with more restrictions and limitations to their operations
 - Top themes from comments received included:
 - Concerns with the negative impacts to residential neighbourhoods namely - parking, decreased privacy, residential neighbourhood character
 - Housing availability and affordability - both rental and ownership
 - Desire for greater restrictions on STRs and increased enforcement
- 26% reported operating an STR in secondary residence; 22% stated that the STR is an investment property
 - 86% of STR operators support the City's current STR management program goal to "allow property owners to rent safe and healthy dwellings to the vacationing public while limiting nuisances to the surrounding neighbours."
 - 69% want no changes to the City's current STR management system
 - Most important benefits identified by STR operators:
 - STRs provide more tourist accommodation options for tourists
 - Enable secondary income (i.e. mortgage helper)
 - More flexibility for property owners (compared to long-term rentals)
 - Most frequent comments received were:
 - There is no protection for landlords with long-term rentals (creating further incentive for operating STRs versus LTR)
 - STRs provide different services than hotels (amenities like kitchens)
 - More enforcement is needed for STR regulatory and permitting compliance
 - STRs contribute to the economy
 - STRs contribute to affordability for guests with families/ larger groups

STR OPERATORS SURVEY

The City of Penticton's engagement site 'Shape Your City Penticton' hosted an online survey open for STR operators input from January 9-27, 2023.

STR operators feedback is summarized below:

- 247 survey forms were completed
- 69% of respondents were full time residents, 15% were not residents of Penticton
- 50% reported an STR in their principal residence

STR OPERATORS FOCUS GROUP

EcoPlan and City of Penticton staff delivered a focus group meeting for STR operators on January 26, 2023 from 6:30 to 8pm. Approximately 87 STR operators participated in the meeting and expressed a range of interests, concerns and questions. Participants' questions were answered. STR operators were asked to provide feedback through the online survey hosted on 'Shape your City Penticton'.



Impacts

This report uses the term “impacts” to include both positive impacts (benefits) and negative impacts (harms), recognizing that whether a particular impact is a benefit or harm depends to some extent on individual perspectives (e.g. higher housing costs can be a benefit to current homeowners, while simultaneously a harm to renters and first-time homebuyers).

The two dominant impact areas identified through this project are **accommodation impacts** and **housing impacts**.⁶⁶ Considerations about overall economic impacts from STRs are discussed, but drawing conclusions about the net impacts from STRs on e.g. total economic activity are complex to assess and out of scope of the current study.

The number of complaints filed in response to STR activity over the years has been relatively small and related to a small number of unlicensed units; as such, neighbourhood disturbances were not revealed by this study to be a major area of impact. Complaints about “neighbourhood character” tie back to housing impacts.

⁶⁶ While a relatively small number of STR units have been subject to neighbour complaints over the years (e.g. noise), the majority of complaints relate to perceived impacts on neighbourhood character, which tie back to housing impacts.

ACCOMMODATION IMPACTS

Summary

STRs contribute ~13% of Penticton's available full-time fixed roof accommodation units, accommodate ~14% of annual demand, ~18% of peak summer demand, and account for ~25% of annual tourism revenue. Overall, STRs add a greater number, diversity, and distribution of guest accommodation, at a slightly higher average price point. Without STRs, there would be a shortage of ~250 fixed-roof units during the peak summer months.

Simultaneously, STRs negatively impact traditional accommodation providers both through direct competition, and by decreasing the availability and affordability of staff housing – reducing these businesses' ability to succeed and expand, by which they might decrease or eliminate the need for STR accommodation in the first place.

Details

- **More overall availability:** The aggregate STR availability of ~275 [quasi] hotel rooms⁶⁷ equates to ~13% of Penticton's total stock of fixed-roof, full-time/year-round accommodation units in 2022.⁶⁸ Expressed differently, STRs added 15% more units to Penticton's stock of this type of accommodation in 2022.⁶⁹
- **More diversity:** Being 95% "entire homes"/housing units, on average STRs are larger and have more amenities than traditional accommodation units, adding diversity to Penticton's accommodation stock and likely attracting visitors who might not otherwise come to town.
- **In more places:** STRs currently offer the only accommodation in some neighbourhoods / portions of neighbourhoods. Rural tourism accommodations are only provided by STRs.
- **Accommodation of annual demand:** STRs accommodated ~14% of total demand for fixed roof accommodation in 2022.⁷⁰
- **Accommodation of peak demand:** STRs accommodated ~18% of peak summer demand in August 2022.⁷¹ Without STRs, we can roughly estimate there would have been a shortage of 252 rooms during this peak month.⁷²
- **Not as important in the low season:** Traditional providers can – in terms of number of available rooms – more than fully accommodate low-season demand in Penticton (caveat: this is setting aside specific amenity demands that STR booking parties may have and that in some cases might not be available from traditional providers).
- **Share of tourism revenue:** In 2022 STRs generated ~25% of total room revenue – and by extrapolation 25% of overall tourism revenue – in Penticton.⁷³
- **More expensive:** The average daily rate of an STR in 2022 (\$240) was 24% times higher than the average hotel/motel rate (\$193). I.e. While STRs may provide overall comparatively good *value* (taking into account their size and amenities), they are generally not the most affordable per unit option.
- **Competition:** STRs compete with traditional accommodation providers – particularly in the shoulder and low seasons – and therefore economically impact these providers and their ability to succeed and expand; however, collecting data to quantify this impact was beyond the scope of the present report.
- **Staff housing:** STRs decrease the availability and affordability of staff housing (e.g. see housing impacts section, below).

⁶⁷ See "Hotel equivalent" data above.

⁶⁸ Calculated by dividing 275 / (1780 + 275). 1780 being the total number of hotel, motel, resort, inn and B&B units at the end of 2022 (source: Travel Penticton), not including the 121 units under construction at the Four Points Sheraton.

⁶⁹ Calculation: 275/1780 (see above for details on the 1780 figure).

⁷⁰ Calculation: 53,264 STR listing nights booked in 2022 (source: AirDNA) / (53,264 + 332,020 booking nights across all non-STR fixed roof accommodation (source: Travel Penticton)) = 14%

⁷¹ In August 2022 (the most recent month of peak accommodation demand), 9,619 STR listing nights were booked on Airbnb and VRBO (source: AirDNA, accessed Jan 27, 2023), and an estimated 43,740 nights were booked in hotels, motels, resorts, inns and B&Bs, reflecting a 78.3% occupancy rate (source: Travel Penticton). This translates into 53,359 total nights booked across all of these types of fixed-roof accommodation, with STRs therefore accommodating ~18% of this peak demand (9,619/53,359).

⁷² To produce this estimate can imagine an alternate August 2022 in which no STRs were available and conservatively assume that the average STR party thus displaced would need the equivalent of at least 2 average traditional accommodation units to alternatively accommodate them. Calculation: (9,619 STR nights booked * an adjustment factor of 2 + 43,740 nights booked in non-STR properties) - (1780 total non-STR rooms * 31 days in August) / 31 days in August = 252.

⁷³ Calculation: 14.3 million in estimated total room revenue from STRs / (14.3 + an estimated 43.1 million in room revenue from non-STR fixed-roof accommodation).

HOUSING IMPACTS

Summary

It is currently two to three times more profitable to operate a local dwelling unit as a year-round short-term rental vs. a long-term rental. This economic incentive, along with the flexibility inherent to STR use, is leading an estimated ~250 Penticton residents to operate STRs in a “mortgage helper” capacity, with the monthly income benefits for these residents counteracted somewhat by a directly-associated increase in purchase prices (details below); with more of this type of benefit therefore accruing to long-time property owners. “Mortgage helper” listings in a principal dwelling unit are not associated with potential housing loss; all others are (including secondary and garden suites).

While STR mortgage helpers are increasing monthly affordability for ~1.4% of current residents, commercial STR activity in Penticton is simultaneously decreasing the availability and affordability of housing *marketwide*. Generally speaking, this marketwide impact harms local renters (specifically those who have or will enter into a new tenancy since STR activity began) and home buyers (specifically first time home buyers, those upgrading to a more expensive unit, and those whose options have been limited by STR-induced housing loss); and benefits landlords and sellers. These marketwide impacts are largely driven by the City’s ~200 non-principal residence STRs, which can be thought of as lost potential⁷⁴ homes, equating to ~1% of the City’s total housing stock or ~3% of its total rental housing stock. While a seemingly small number, the City’s housing shortage of ~1,400 units (equivalent to ~8% of current stock) and ultra-low vacancy rate of 0.8% create a context where seemingly-small numbers of commercial STRs create outsized

effects. Indeed, available econometric modelling reveals significant impacts of commercial STRs/FREH⁷⁵ on local rents; e.g. from 2016-2021, Penticton renters paid an estimated \$47.9 million more in rent because of the presence of commercial STRs (FREH).

Details

- **Economic incentive to convert:** A typical year-round short-term rental in Penticton can generate an estimated 2.7 times more revenue than a comparable long-term rental.⁷⁶
- **Lower housing availability:** The estimate of ~200 STRs in non-principal residences equates to ~1.1% of the City’s total housing stock or ~3% of its total rental housing stock, which can be thought of as lost potential housing.
- **Catalyst for new suites:** Staff reported examples of new accessory dwelling units that would not/may not have been built except as short-term rentals. If these units ever convert to long-term housing, then STR permissions – in these cases and at that time – can be thought of as a catalyst for additional housing. However, it isn’t possible to verify the counterfactual (whether/how many of these same owners would have built these units anyway in an alternative regulatory environment).⁷⁷
- **Mortgage helper:** Available data suggest there may be ~250 or so STR operators in Penticton who can be thought of as operating an STR as a mortgage helper.⁷⁸ There are two versions of this activity. The first is often referred to as “true homesharing” and is where the principal resident STRs – in whole or in part – the actual suite of rooms where they live. By definition true homesharing is not associated with the

74 “Potential” meaning that if STR permissions were somehow taken away, it is not the case that *all* of these units would be returned to the long-term housing market (either as rentals or owner occupied units); however, over time the economic incentive to transition these units to long-term housing would mount (regardless of what any given owner might *claim* they would do in such circumstances, in the present). In any case, this figure represents a pool of potentially freeable homes.

75 “FREH” are STR units listed for at least 183 days and booked for at least 90 days in a 12 month period.

76 This can be calculated by taking average rents for each of 1,2 and 3 bedroom units from CMHC’s most recent yearly rental market survey (2021) – data included in the Housing Market section of this report – and comparing that to expected revenue from AirDNA’s Rentalizer tool for 1,2 and 3 bedroom units (accessed Mar 25 2023). Interestingly, Rentalizer reports a multiple of 2.7x for all three types of units. A caveat here is the time gap between the 2021 long-term rental data and the 2023 Rentalizer data (long-term rents are likely higher now than in the 2021 data); with this caveat in mind, a ballpark conclusion is that the typical STR can generate 2-3X more revenue than a comparable LTR in Penticton.

77 It is interesting to note that some jurisdictions allow temporary STR use of new ADUs to financially catalyze their construction but stipulate a maximum number of years after which they must be used as long-term housing.

78 Calculation: 50% of STR Operator survey respondents who claim to reside on the STR property >6 months of the year multiplied by a maximum of ~500 or so active STR units in 2022. A very small number of STR Operator survey respondents are renters therefore it is safe to generalize these units as mortgage helpers vs. mortgage/rent helpers.

loss of potential long-term housing⁷⁹ and as such this version is more often seen as purely positive in terms of impact. The second version of the mortgage helper scenario is where the principal resident STRs a separate dwelling unit on the same lot as their home (e.g. a basement suite or garden suite); by contrast, this version can often (not always) be associated with the loss of long-term housing (short-term renting an otherwise long-term rent-able suite) and is therefore usually considered to have a mixed impact (both positive and negative). In both cases, the “mortgage helper” effect will be offset by the fact that costs to actually purchase a home will have increased marketwide in response to STR activity (see below); i.e. the supplemental income potential may have already been priced into the unit such that the perceived “affordability” gain has either already been opaquely wiped out, or exists largely at the level of monthly payments and not in the purchase price itself (this effect being similar to the effect of low interest rates which can make monthly payments more affordable even as they inflate purchase prices). In any case, (a) current/long-time owners will benefit the most from the mortgage-helper effect while most future homeowners in Penticton will end up paying more for housing as a result of STR activity (see below), and (b) the mortgage-helper scenario will only ever be of significant benefit to a slim minority of residents (because there’s only so much tourist demand to go around).⁸⁰

- **Higher rents marketwide:** Economic modelling by Dr. David Wachsmuth⁸¹ suggests the presence of “frequently rented entire home (FREH)” STRs in Penticton has led to significantly higher rents; a result that Wachsmuth expresses in four related ways:
 - From 2016-2021, Penticton renters paid \$47.9 million more in rent because of the presence of commercial STRs (FREH).
 - In 2019, commercial STRs (FREH) were responsible for fully 12.5% of the total rents

paid by Penticton tenants.

- During the 2017-2019 pre-pandemic period, the increase of commercial STRs in Penticton accounts for nearly half (49.6%) of the increase in rents faced by local renters.
- Compared to rents at the end of 2021, rents in 2023 are estimated to be \$332 per year higher because of the presence and growth of commercial STRs.
- **Higher home buying costs marketwide:** Unlike with rents, we do not have Penticton-specific economic modeling estimating impacts on home buying costs, so we can only provide statements of generalized impact derived from first principles and supported by numerous studies in other North American jurisdictions. The generalized impact being a decrease in home buying affordability due to two main effects: (a) dwelling units converted to STRs shrink the supply of housing, which drives prices up (this is an effect that is most pronounced when supply is low); (b) the increased revenue potential of STRs increases the economic value of housing marketwide, with individual properties and neighbourhoods that are already used extensively for STR tending to be especially expensive.
- **Student housing:** Some community consultation identified STRs as a source of student housing. However, presumably most of these arrangements exceed 30 days and therefore are not actually a short-term rental under Penticton’s current rules. Furthermore, informational interviews with Okanagan College noted these STR-associated units as expensive and often not available at the start of school semester in the first week of September (as the owner seeks to maximize peak season revenue until end of September). It is possible that some of these units are actually operating in contravention of the *Rental Tenancy Act* (e.g. quasi-fixed term leases mediated by STR platforms outside of the specified criteria for this type of tenancy); this is an emerging and serious issue in some

⁷⁹ The exception being those cases where a roommate is foregone in favour of short-term renting one or more rooms in a shared home.

⁸⁰ There is not enough data currently available to say with confidence how many of the estimated ~250 mortgage-helper units are e.g. version 1 (true homesharing).

⁸¹ David Wachsmuth, School of Urban Planning McGill University, December 2022. “Commercial short-term rental trends in Penticton.” As well as a larger BC-wide report with more details on methodology: David Wachsmuth, Maxime Belanger De Blois, Cloe St-Hilaire. [“The impact of short-term rentals on housing affordability in British Columbia: Market overview, trend modelling, and regulatory recommendations”](#) July 2022. Pg. 15

jurisdictions. A better form of student housing would be dedicated student housing, or proper *Residential Tenancy Act*-governed tenancies.

- **MRDT contribution in 2022:** Municipal regional district tax (MRDT), collected in 2022 was \$1,040,689. Individual STR operators contributed \$106,183 through the online accommodation provider (OAP) portion of the MRDT.⁸²

OVERALL ECONOMIC IMPACTS

This study reveals that STRs are associated with approximately 25% of annual tourism revenue (with an estimated total STR guest spend of ~\$57 million in 2022).⁸³

However, drawing conclusions about the net impact of this STR activity on the overall economy is made complex by: (a) the difficulty in assessing counterfactual scenarios where e.g. traditional accommodation providers were allowed to/ systematically incentivized to upgrade and expand to accommodate demand in the absence of STR competition (in terms of both number of units and their diversity/amenities); (b) the decreased local discretionary spending by Penticton tenants and [some] home buyers due to STR-induced rent and home price increases; and (c) the difficulty in assessing precisely how many STR units would otherwise be used as long-term housing if not permitted as STR, which in turn makes it difficult to estimate the foregone local spending that would otherwise flow from year-round residents in these units (economic contributions from full-time residents often exceed those made by guests staying in any given dwelling unit).

While it is possible to dive into some of these complexities, doing so was beyond the scope of the current study, and therefore we are unable to say with confidence whether STRs are currently a net benefit or a net harm to Penticton's economy.

TRADE-OFFS

The above analysis reveals that STRs are associated with complex trade-offs between different interests and groups of people. For example, two of the largest identified trade-offs are between:

- Prioritizing supports for STR accommodation vs. prioritizing supports for traditional accommodation – to achieve the tourism activity and revenue desired.
- Prioritizing STR supplementary income for ~250 current resident homeowners vs. prioritizing marketwide affordability for all renters and first time home buyers.

Illustratively, while the analysis reveals that a few hundred STR operators have earned a historical average of \$7.4 million in total annual revenue/income,⁸⁴ Penticton's thousands of tenant households are estimated to have had to pay a historical average of ~\$8 million in total annual additional rent, as a direct result of the commercial/FREH component of this STR activity.⁸⁵ That is, the analysis reveals an almost dollar for dollar trade-off here: with STR operators and local landlords positively impacted, and local tenants negatively impacted.

A diagram of general STR trade-offs has been included in the Appendix.

⁸² Source: City of Penticton Finance Department, April 2023.

⁸³ Calculation: \$14.3 million in total operator revenue (source: AirDNA accessed Mar 23 2023) multiplied by four (Travel Penticton uses a rough assumption that accommodation spend is 25% of total spend).

⁸⁴ This average is calculated from available AirDNA data (accessed Mar 2023) covering 2019-2021. Source: AirDNA.

⁸⁵ Source: David Wachsmuth, School of Urban Planning McGill University, December 2022. "Commercial short-term rental trends in Penticton."

Regulatory Options

As it wrestles with the above trade-offs, we advise Council to confirm/clarify its goals for STR regulations going forward. One of the clearest best practices for STR programs – or any program – is to start with a clear goal (or set of prioritized goals), not a regulation.

Below, we synthesize a few high-level “pathways” Council could consider as part of that deliberation. Each pathway is given a name that summarizes a basic possible intent, with associated goals, high-level regulatory options and notes provided for each. Of course, the options are virtually limitless, but our hope is these example pathways provide helpful food for thought.



Pathway	Regulatory Options	Notes
<p>“Status quo”</p> <p><i>Maintain current goal of “allow[ing] property owners to rent safe and healthy dwellings to the vacationing public while limiting nuisances to the surrounding neighbours.”</i></p>	<ul style="list-style-type: none"> Consider switching from a system that categorizes STRs based on number of nights (very difficult to track) to one that categorizes STRs based on whether the unit is the operator’s principal dwelling unit or principal residence (a more verifiable proxy for intensity that also correlates with profitability). Consider switching from the common definition of STRs as being less than 30 days to one that is inclusive of all guest stays in dwelling units (to eliminate a large current grey zone/loophole). 	<ul style="list-style-type: none"> There are numerous examples of jurisdictions that categorize STRs based on the onsite residency of the operator, with “principal residence” taking one of three general meanings. The Town of Gibsons uses a definition for Residential Guest Accommodation (formerly STR) that is inclusive of all guest stays in dwelling units, regardless of duration.
<p>“Strike a new balance”</p> <p><i>This pathway would aim to concentrate the revenue potential of STRs in the hands of local residents, dial back the negative impacts of STRs on marketwide housing availability and affordability by weeding out the more commercial operators, while maintaining and incentivizing a supply of diverse accommodation options for guests. Here, the phrases “dial back” and strike a new “balance” are chosen to reflect the fact that this pathway imagines regulatory options that in some cases still lead to a relatively dynamic market with e.g. uncertain future housing loss.</i></p>	<ul style="list-style-type: none"> Consider the “status quo” adjustments, above, because they would also be of benefit to this pathway. Consider implementing one of the three basic types of “principal residence” requirements. 	<ul style="list-style-type: none"> The strength of the housing-protective effect would depend on the type of principal residence requirement chosen. If the “onsite operator” or “onsite resident” versions of the requirement are chosen, there could still be significant potential housing loss over time (as the market adjusts to the new regulatory/incentive environment), but the negative impacts would likely be less compared to the status quo (caveat: many dynamic factors at play). Currently licenced units in non-principal residences would be allowed to continue operating under current and future owners so long as the use is continuous. The City need not worry too much about enforcing/tracking continuity of use of these legal non-conforming units (this would be a burden). The number of these licenced non-principal residence STRs could therefore be considered as “capped” going forward.

Pathway	Regulatory Options	Notes
<p>“Cap and revisit”</p> <p><i>In this pathway, the goals would be the same as with the “strike a new balance” pathway above, but with a desire to achieve a more certain mitigation of negative housing impacts.</i></p>	<ul style="list-style-type: none"> Consider the “status quo” adjustments, above, because they would also be of benefit to this pathway. Set a firm cap on the number of business licences available for STRs in non-principal residences (minimally equal to the number of currently-issued licences for such properties). Consider adjusting the cap upwards in future years depending on reassessment of e.g. local accommodation and housing market conditions (adjusting the cap <i>downward</i> is a difficult, uncertain and long-term process). 	<ul style="list-style-type: none"> First you would need to decide which of the three meanings of principal residence you want to go with. E.g. The City of Nelson has a cap of 100 licences for certain types of STRs. The summer period addressing the high visitor season and start of school semester is one category.
<p>“Dissolve the main trade-off”</p> <p><i>This pathway builds on both the “seek a new balance” and “cap and revisit” pathways with an additional goal to dissolve the main trade-off on this issue going forward: namely, to fully satisfy the need for modern, amenity-rich guest accommodation without sacrificing additional long-term housing, and while still providing opportunities for residents and others to earn STR income.</i></p>	<ul style="list-style-type: none"> Consider all of the regulatory adjustments outlined above, because they would also help advance this pathway. Develop a comprehensive strategy of incentives to spur the upgrading and expansion of traditional guest accommodation that doesn’t compete with housing. This could include property tax incentives, pre-zoning (inc. with additional allowed density), streamlined review and approvals processes, coordinated planning of guest-attractive amenities, and outreach to providers. Strata hotels (“traditional” in some jurisdictions like Whistler and other BC ski resorts) can be an elegant format to achieve this pathway’s goals because they can sometimes be easier to finance, and they distribute the revenue benefits of STRs more widely (including to local resident investors). Hotel Residences are another hybrid option that can provide amenity-rich tourism units in a professionally-managed, concentrated format. 	<ul style="list-style-type: none"> This is the approach Third Space Planning consultants designed for the Town of Gibsons. TUPs for non-principal residence STRs are utilized to maintain accommodation inventory while the strategy for upgrading/expanding more traditional guest accommodation is created and executed. A basic premise is that it should be possible - with the right set of incentives and strategies – to facilitate enough upgrading and expansion of “traditional accommodation” providers (inclusive of hybrid models such as Strata Hotels or Hotel Residences) to meet tourist demand, both in terms of number of units and amenities.

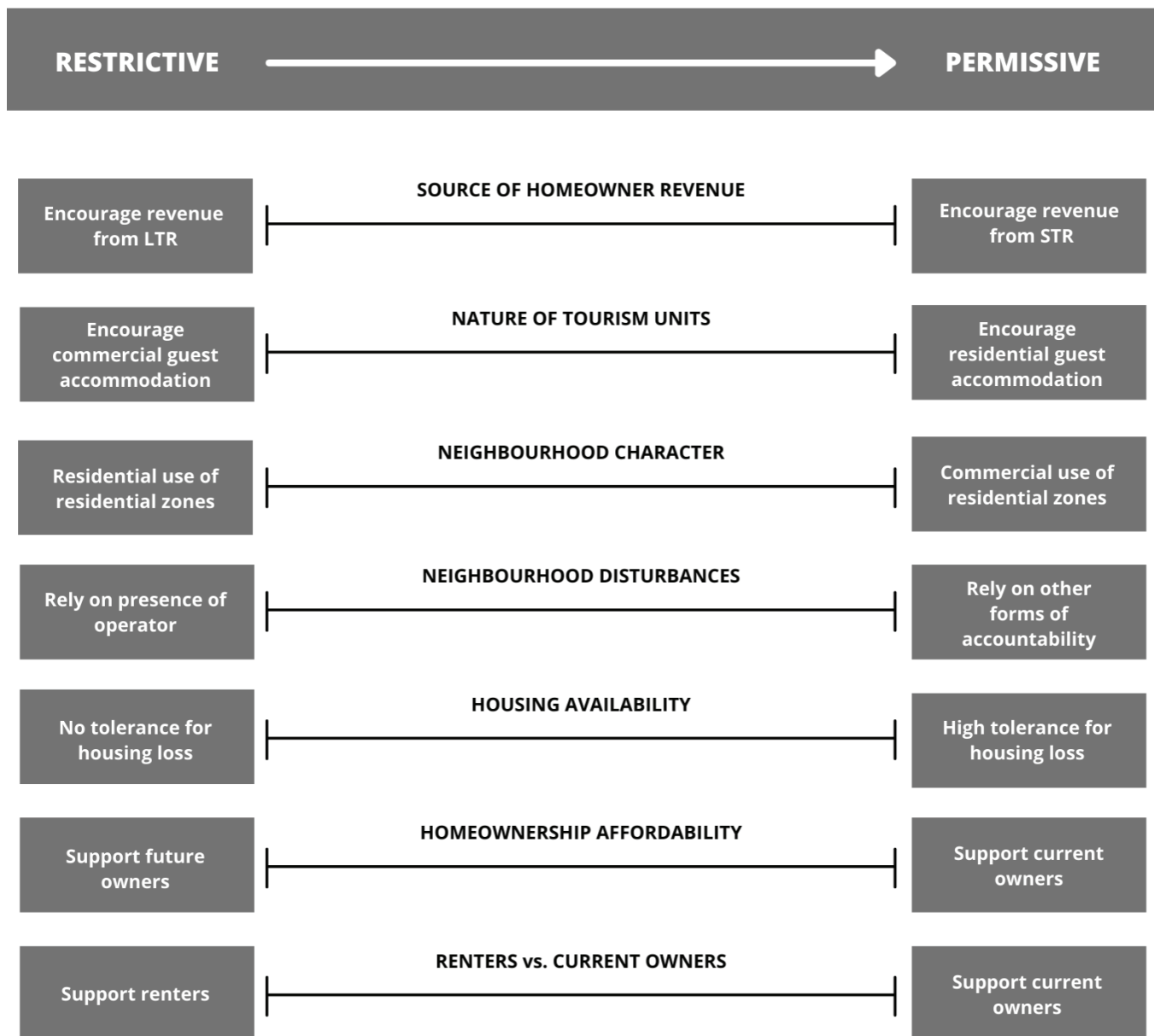
Appendix A:

Additional Context and Considerations

In this appendix we provide additional context and considerations responsive to key questions we've heard from both Council and staff throughout the project.

Trade-offs

The following diagram summarizes some of the key trade-offs inherent to the STR issue.



Provincial action

In June 2021 a joint UBCM/BC Advisory Group released their final report containing a number of recommended priorities for provincial action on short-term rentals.⁸⁶

These recommended actions included establishing a provincial registration system, requirements for STR platforms to share certain data with provincial and local governments, and requirements for STR platforms to proactively remove unregistered/unlicensed listings. If implemented, these actions would greatly simplify local enforcement.

The current mandate letter for the Minister of Housing, as well as the provincial response to 2022 UBCM Resolution NR11, suggest that work on these and other measures is ongoing.

However, even if the above actions are implemented, decisions about how and how many STRs to allow will remain the domain of local governments – as per their land use and business licencing authority.

Three types of “principal residence” requirements

The term “principal residence” can be confusing because (a) its meaning and application change from one local government to the next, (b) the provincial and federal governments have their own definitions (related to taxes, etc.), and people often have their own intuitive idea about what it means.

When it comes to local STR regulations, there are three basic types of “principal residence” requirement in use, as summarized in the following table:

Type	Details	Example Jurisdictions	Notes
“True homesharing”	Principal residence refers to the specific suite of rooms/dwelling unit where an STR operator lives (i.e. not inclusive of any secondary suites or ADUs on the property)	Vancouver, Victoria, Squamish, Kelowna, Gibsons, etc.	This is the most housing-protective option. It still allows for a diversity of STRs and for residents to earn supplemental income, but at a lower intensity per unit.
“Onsite operator”	Principal residence refers to the lot on which the STR operator lives (i.e. it includes any secondary suits or ADUs on the lot, even if the operator doesn't live in them)	Chilliwack, Ucluelet (for some of their STR sub-categories), West Kelowna	This option weeds out the more commercial operators while providing for greater onsite accountability and flexibility and revenue potential for local homeowners. It can, however, still lead to significant housing loss and decreased marketwide affordability because the number of dedicated STR dwelling units can become quite large over time.

86 Available here: https://www.ubcm.ca/sites/default/files/2021-11/Policy%20Areas_Housing_Priorities%20for%20Short-Term%20Rentals%20Report_2021-10.pdf

Type	Details	Example Jurisdictions	Notes
“Onsite resident”	Principal residence refers to a lot on which anyone lives/resides full-time (i.e. the full-time resident doesn’t need to be the STR operator)	Summerland, Tofino	This is the “loosest” option. For example, It still allows for non-resident investors to build up multi-listing portfolios, so long as there’s at least one long-term tenant on site. It is sometimes intended to help catalyze ADU construction by vacation home owners and property investors (i.e. if these owners want STR income from the property while they’re not there, they are obliged to build an ADU and house a long-term tenant). As with the “onsite operator” option, this approach can still be associated with significant net housing loss and decreased marketwide affordability.

If Penticton wishes to pursue a “principal residence” requirement going forward, it will be important to clarify which of the above options it is referring to at any given time. Noting that jurisdictions will further define a principal residence in terms of e.g. the number of months per year the person resides there, etc.

Hard to “go backward” but easier to “draw a new line”

At the time of review, Penticton had granted 322 business licences for STR operations, including to 138 operators who did not live at the address being used for STR (i.e. non-principal residence STRs).

The non-conforming use (grandparenting) provisions of the Local Government Act protect these licenced operators – as well as the units and buildings in question, and therefore any future owners/operators – from the effects of zoning bylaw changes that would otherwise prohibit the existing STR use. These grandparenting protections remain in place so long as the STR use is not discontinued.

To give a specific example, staff received a legal opinion regarding a hypothetical scenario where Council passed bylaw amendments restricting STRs to properties where the operator lived onsite. An excerpt from this opinion is provided below:

“...A zoning change to require the operator of a vacation rental to live ‘on-site’ would not require an operator of an existing lawful vacation rental who lives off-site, to move on-site. The operation could continue with an off-site operator, and that would be true even if the property was sold to a new owner. That new owner could also operate the vacation rental from off-site, despite the new zoning rule, in the same way it was previously operated. The non-conforming use loses its protection from the new zoning rules if the use is discontinued, but it’s not necessarily clear what “discontinued” would mean in this example, assuming the vacation rental use isn’t happening all the time anyway. The right to continue a non-conforming use does not include the right to expand the use, except within an existing building that might have only been partially occupied by the non-conforming use. Also, to be clear, if a vacation rental was being operated before the bylaw change with an on-site operator, they could not rely on what would have been allowed under previous zoning to switch to off-site operation after the bylaw changes to prohibit that option. They have to prove their now-unlawful use predates the bylaw change.”

It is theoretically possible – with a great deal of effort and a bit of legal clarification – to track continuance of use in an attempt to slowly chip away at the number of units that are grandparented, e.g. in a scenario where new restrictions in the zoning bylaw are passed by Council. But the short story is that “it is hard to go backward” on zoning permissions for currently-licensed properties.

However, this need not stop Council from considering a more restrictive program going forward (e.g. if Council wishes to seek a new balance between STR accommodation and housing). So long as enforcement limitations on grandparented units are acknowledged/accepted (i.e. there is no expectation of heroic efforts to track continuance of use), it is straightforward to “draw a new line” that applies to future licence applications, and this new line can effectively serve any adjusted goals Council might have for the program.

Would new restrictions prompt operators to “go further underground”?

One question that arose during the project was whether any new restrictions could drive some operators to “go further underground”, e.g. by listing their STR on channels not actively monitored by enforcement staff.

The short answer is “likely yes.” However, this strategy is somewhat self-limiting in that (a) the further one goes underground, the harder it becomes for new guests to find and book one’s property, and (b) the more successful one is at securing bookings via alternative channels, the more those channels will begin to appear on the radar of enforcement staff.

The basic solution – and best practice – in the face of *all manner* of attempts to circumvent local STR regulations is a proactive approach to enforcement, with enforcement staff actively identifying and pursuing the shifting strategies of non-compliant operators, and with business licence fees and fines set high enough to sustainably pay for these efforts.

Rent impact methodology

Details about the methodology used to estimate the impact of STRs on Penticton rents is outlined on pp. 50-51 of this BC-wide study.

Challenges of “offset logic”

There is sometimes the idea that to eliminate the impacts of a given number of short-term rentals on the housing market, all a community needs to do is build that same number of new homes (i.e. offset the STRs). However, this logic unfortunately fails on at least a couple of key fronts:

- First, for any kind of offset to be effective it needs to have what is called strong “additionality.” That is, it needs to be clearly established that these new homes would not otherwise have been built. In the context of an ongoing and acute housing shortage, where there is strong appetite to build new homes regardless of what’s going on in the STR market, “additionality” will be very difficult to ever establish.
- Second, and most importantly, Penticton is not experiencing decreased marketwide housing affordability from its current ~200 non-principal residence STRs due to the absence of 200 additional homes; rather, the 200 non-principal residence STRs are creating these impacts in the context of a ~1,400 home shortage and 0.8% vacancy rate. It is these latter numbers that would need to be addressed to eliminate/significantly reduce the STR-induced impact, a process that will likely be difficult and take many years.



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