

Home Truths: Implications of Short- Term Vacation Rentals on Victoria's Housing Market

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Executive Summary

Canadian author Yann Martel has characterized his homeland as “the greatest hotel on earth: it welcomes people from everywhere”.

This is an apt description of why owners of this second-largest piece of real estate in the world are eager to capitalize on every underutilized room, empty condo suite, or temporarily vacant home they can.

The question is: What happens to a community or indeed an entire country that sees itself as a convenient impermanent waystation or a speculative real estate opportunity with no lasting responsibilities attached?

If you're Mark Zuckerberg, the immensely wealthy founder of Facebook's 1.7 billion world-wide fan club, you have the answer: “find a way to change the game so it works for everyone.” And the name of the game in the 21st century is maximizing profit just as it has been for hundreds of years. The name of the game may have changed, based new business models and technologies, but the game always promises to deliver perks and premiums for all those willing to pay the price. Let no one forget however, that like all games, there are winners and losers.

In the last decade, there has been an explosive growth in a new game - the online “home-sharing” market that connects people seeking short-term lodging with those who wish to rent their property to leisure or business travelers. These platforms charge a fee for hosting residential listings, managing bookings and payment, and providing additional services such as insurance. Airbnb, the largest of these home-sharing platforms, established in 2008, is now a company valued at more than \$40 billion, with more than three million listings worldwide and hosts in 190 countries and 34,000 cities.

In 2015, Airbnb hosts with more than 50,000 listings in Canada, provided accommodation to more than 327,000 guests from across the country and elsewhere. Some 935,000 travelling Canadians also stayed with Airbnb hosts located in the country and beyond its borders. Airbnb says 85 percent of its global hosts rent out their primary residences in large cities five or six times a month as a modest way to supplement their income.

This “disruptive” peer-to-peer technology has changed the travel and accommodation landscape significantly, increasing competition for large-scale commercial hotel operators and smaller independently owned bed-and-breakfasts. It has also had a significant impact on the traditional rental housing market in major urban areas which provide permanent accommodation for workers, families, and retirees.

What these “home-sharing” ventures often overlook is the potential negative impact on permanent accommodation availability in cities with affordable rental housing crises. In particular, what goes unmentioned is the fact that the most significant source of home-sharing revenue for Airbnb, VRBO and other tourist accommodation platforms comes from absentee multiple listing landlords and real estate speculators who operate entire units or buildings as unlicensed, unregulated, and untaxed commercial hotels.

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The new 'collaborative consumer' model espoused by Airbnb and others is based on leveraging the existing housing market while generating income and retaining profits outside the formal regulatory and taxation environment. This novel form of enterprise poses a challenge for local governments: (1) how to address the severe shortage of shelter together with soaring prices of housing and rents in urban areas and, (2) how to handle effectively and equitably the complex issue of regulating and taxing this new transnational home-sharing enterprise.

A 2015 study by Chris Gibbs¹ of Ryerson University's Ted Rogers School of Management and the hospitality consulting group, HLT Advisory, showed the growth of Airbnb across Canada and its negative impact on hoteliers particularly in four major cities: Toronto, Ottawa, Calgary and Vancouver. The author concluded his findings with the recommendation that municipalities carefully consider regulatory and licensing issues relating to the operation of Airbnb and other similar platforms.

This independent white paper explores the issue of home-sharing, in particular, the potential impact of Airbnb on the rental housing market British Columbia's capital city, Victoria. It draws on the timely research of Karen Sawatzky, a former Victoria resident who has just completed her S.F.U. Master of Urban Studies thesis, "Short-Term Consequences: Investigating the Nature, Extent and Rental Housing Implications of Airbnb Listings in Vancouver." Her thesis also considers the important research findings of the Canadian Centre for Policy Alternatives on the impact of Airbnb in Toronto.²

While this paper does not purport to be authoritative academic study, it nevertheless contemplates, from a thoughtful citizen's perspective, the overall changes that are taking place in the urban landscape with a view to assessing the impact of home-sharing in a popular tourist destination. Today, the City of Victoria has 955 active Airbnb listings, or one short-term vacation rental listing for every 87 inhabitants, while the neighbourhood of James Bay has one Airbnb listing for every 60 residents³. In addition to Victoria's experience with the new lodging model, the author also considers the experience of local governments expressed by members of the Union of B.C. Municipalities and Tourism Victoria. These stakeholders try to balance the needs of permanent residents needing affordable, accessible places to live, while recognizing the need to cater to tourists looking for accommodation be it in hotels and motels, guest houses and bed-and-breakfasts as well as granny suites and condo units.

This paper provides no definitive answers. It does however create a foundation for citizens, urban professionals, and decision-makers to discuss issues of home-sharing, the costs and benefits of short-term rentals to individuals and to the community, and shed light on policy guidelines that may help develop an appropriate regulatory framework to solve issues related to licensing, compliance, and enforcement of a burgeoning new sector of the 21st century economy.

¹ Dr. Chris Gibbs, "Airbnb...& The Impact on the Canadian Hotel Industry", Ted Rogers School of Hospitality and Tourism Management, (PowerPoint Presentation), June 2016.

http://www.ryerson.ca/content/dam/tedrogersschool/htm/documents/ResearchInstitute/CDN_Airbnb_Market_Report.pdf

² Zohra Jamasi, Trish Hennessy, *Nobody's Business: Airbnb in Toronto*, (Toronto: Canadian Centre for Policy Alternatives), September 2016.

³ Data based on third-party analytics firm, Airdna (December 1, 2016) and Airbnb (December 31, 2016).

Chapter 1. Introduction

1.1 Overview

The City of Victoria is experiencing a significant redevelopment of its existing housing stock, involving demolition of older single family homes and low-rise wood-frame apartment blocks, particularly in the downtown core and in the adjacent neighbourhoods of James Bay and Fairfield.

Victoria is now ranked the second least affordable place to live in Canada. *The 2016 Demographia International Housing Affordability Survey* indicates that a home in B.C.'s capital city now has a price tag that is more than 6.9 times the median household income of the area. In their view, a home in this City is "seriously unaffordable" to many buyers and is certainly well beyond the financial means of most renters.

While Victoria may have been named by *Conde Nast Traveler* as the seventh best city to visit in the world, tourism being its second largest industry, there remains an unanswered question: Can the City's infrastructure be sustained by hospitality alone? Must the City's permanent residents and their quality of life be sacrificed in order to attract the lucrative domestic and off-shore transient tourist trade?

According to Victoria.Citifed.ca⁴, the real estate buying frenzy which has seen a soaring market over the past two years is far from over. One of the top five-busiest months in the city's real estate history, reveals that pre-sale prices for new construction and resale homes are hitting new highs as inventory falls. In other words, the demand for accommodation is outstripping supply in a tight housing market.

The median price for a single-family home in what Mayor Helps calls a "21st century world leading city"⁵ is now \$650,000. As for condos, the benchmark price is \$371,300 up 22 percent over November 2015. With a modest increase in the number of condos 171 versus 159 sold over this time last year, and a consistently low inventory, it takes on average only 33 days to sell a condo unit now (compared to 62 days in November last year), according to The Condo Group⁶.

Victoria is now the recipient of affluent newcomers: Vancouverites cashing out on homes and buying condos here, and Prairie retirees seeking a comfortable climate and cozy condos. The city attracts well-paid civil servants and an increasing segment of high-tech millennials who like to bike or walk to work. Added to the mix is a small but growing cohort of overseas investors who are seeking a safe place to park their funds while their children pursue an education in the city.

⁴ Mike Kozakowski, "One year in, Victoria's real-estate buying frenzy far from over", Ctifed.ca, November 2, 2016. <http://victoria.citifed.ca/news/one-year-in-victorias-real-estate-buying-frenzy-far-from-over/>

⁵ Lisa Helps, "A look back at 2016 with Victoria Mayor Lisa helps", Victoria News, December 30, 2016, p. A5. <http://www.vicnews.com/news/408809005.html>

⁶ The Condo Group.com, Victoria Real Estate: VREB Releases its November Numbers, December 2, 2016.

In this growing capital region economy, we are witnessing increasing income disparities and uneven distribution of wealth both of which are having a significant impact on the quality of life of residents. And, as a popular island tourist destination, we are seeing profound impacts on this port city from millions of tourists flowing through it, in addition to the growing in-migration of financially secure retirees from the Lower Mainland and elsewhere across the country. Some of the most significant impacts are felt by tenants who represent 60 per cent of the city's households. In a tight rental housing market with a vacancy rate of 0.5 per cent, one can expect to pay an average of a \$1,000 a month for a one-bedroom apartment in Victoria.⁷

It is in this context we see the impacts of economic change playing out in the City of Victoria, particularly in the competitive housing market. There is a growing trend toward infill densification, demolition of older homes and low-rise apartments, and replacement with multi-storey condo developments in the downtown area and surrounding neighbourhoods. In this urban environment, there is an increasing displacement of tenants as property owners convert their units to cater to the rapidly growing and highly profitable short-term vacation rental (STVR) market rather than the long-term renters (LTRs). With more than 1,700 rental condos in the downtown area, many condo owners see a business investment opportunity in renting out entire suites at premium prices to capitalize on the tourist demand for non-hotel lodgings.

Not surprisingly, the growth of the short-term vacation rental market now referred to as the "alternative accommodation" market is also having an impact on the existing hotel industry, half of which is located in the City of Victoria. The general manager of the Inn at Laurel Point in James Bay says that competition from Airbnb and other short-term rental services, which has grown to 1,000⁸ or more units, is now a threat to the hotel industry in Victoria⁹. To put this in perspective, this new accommodation niche now represents the equivalent of one-third of the hotel room capacity for the City. (The Downtown and Inner Harbour is home to 30 hotels with 3,186 rooms.)

The same hotelier pointed out that the STVRs have a distinct advantage over hotels. The Airbnb and other similar home-sharing units don't pay the City's 3 per cent marketing tax on accommodation, the Province's 8 per cent room tax, Provincial and Federal Sales Tax or Income Tax. In addition to taking a bite out of hotel industry revenues, he added that STVRs are now posing an additional concern, increased pressure on employee housing. Apparently his new assistant manager who recently moved to Victoria was unable to move into an apartment when the landlord decided instead to list it in on Airbnb.

⁷ Canada Mortgage and Housing Rental Market Report Victoria CMA, Fall 2016, p.8.

⁸ Insideairbnb.com <http://insideairbnb.com/victoria/> on August 1, 2016 reported 1,691 listings for the Greater Victoria area while Airdna LLC (US) <https://www.airdna.co/city/ca/victoria> on December 1, 2016 reported 937 Airbnb active listings for the City of Victoria.

⁹ Deborah Wilson, "Victoria hotelier calls for fair taxation of Airbnb rentals", CBC, November 29, 2016. <http://www.cbc.ca/news/canada/british-columbia/victoria-airbnb-hotels-taxes-1.3871973?cmp=rss>

Housing for hotel and resort industry employees is also a significant issue in the tourist town of Tofino, B.C. which has recently taken steps to regulate Airbnb rentals.

1.2 Victoria explores options to regulate short-term vacation rentals

It is in this context that Victoria City Council received an October 27, 2016 report from staff on Short-Term Vacation Rentals¹⁰ assessing the impact of short-term vacation rentals on the rental housing pool with options to regulate Airbnb and other similar short-term vacation rental platforms.

This report included a brief opinion on “Short-Term Vacation Rentals Policy” given by a Vancouver-based urban planning consultant to the City, several personal testimonials relating the benefits of short-term rentals to property owners. It is interesting to note that Airbnb has established more than 100 clubs for hosts and guests globally, with the hope that these active home-sharing “community members” will become a political force to shape local regulation in its favor.

In addition, the report also narrowed the discussion to four possible options for regulating short-term vacation rentals and summarized their advantages and disadvantages.

1) Prohibit STVRs throughout the city. (This option was not recommended, without referencing the experience of several tourist destinations¹¹ in Florida). Staff's primary objection is based on the premise that this option “removes property owners' existing development entitlements”. There is no consideration of whether the existence of what some see as ‘pseudo hotels’ in residential neighborhoods, could lead to disillusionment with local government who may be perceived as ineffective in protecting the interests of local tax-paying citizens including renters. *Note: The City of Richmond, BC voted on January 10, 2017 to ban short-term rentals, according to The Globe & Mail.*

2) Continue to permit STVRs but with limitations.

3) Maintain current development rights in zoning, communicate licensing requirements for data collection, and prohibit STVRs in affordable housing projects funded by the City.

4) Permit STVRs throughout the city.

Staff recommended option 3 as the best policy option, with a view to continuing to monitor the situation and discuss it further at a workshop for Council in January 2017.

¹⁰ Jonathan Tinney, Director, Sustainable Planning & Community Development, City of Victoria, “Short-Term Vacation Rentals”. Report to City Council, October 7, 2016. <https://victoria.civicweb.net/FileStorage/D755644EC04447E0876D7DB7C2D22B84-report%20short%20term%20vacation.PDF>

¹¹ Chabeli Herrera, “How \$20,000 fines have made Miami Beach an Airbnb battleground”, Miami Herald, November 27, 2016, <http://www.miamiherald.com/news/business/biz-monday/article117332773.html> and Gwen Filosa, “Key West cracking down on vacation rentals”, Miami Herald, May 19, 2016. <http://www.miamiherald.com/news/business/biz-monday/article117332773.html>

Chapter 2. Situational Analysis

2.1 The shifting housing landscape

The United Nations recognizes housing as a fundamental human right; however, there is no guarantee of the right to shelter for everyone in Canada. What can be said is that governments at all levels are committed to improving the quality of life for residents by increasing jobs, the tax base, purchasing power, diversity as well as availability of goods and services, amenities and infrastructure to serve the needs of the community. At the foundation of this economic development rationale is the notion that the ownership of private property will spearhead and sustain the growth of communities together with the health and well-being of people.

In fact, this “home-ownership” ethos is one of the primary guiding principles to ensure the economic vitality of British Columbia according to the real estate industry:

“Realtors believe home ownership is the dream of most British Columbians and deserves a preferred place in our system of values. Home ownership contributes to community responsibility; civic, economic, business and employment stability; family security and wellbeing.”¹²

It also appears that this thesis of the real estate industry is the rationale behind the City of Victoria's housing strategy, particularly with regard to options for regulating short-term vacation rental properties. The staff report¹³ indicates the preferable option is one that “maintains existing property owners' rights in the downtown core where transient accommodation use is permitted” and avoids “removing property owners existing development entitlements.”

The 2011 National Household Survey (NHS) indicates that housing for 87 per cent of Canadians is provided through the private market, with than two thirds of households owning their own homes while 31 percent rent. In the province of B.C., 70 percent of households own homes while 30 percent rent. What is significantly different in the City of Victoria, is that 60 per cent of households (24,820) rent compared to 40 percent who own their own homes.

Home-ownership in Canada has been consistently subsidized by all levels of government through the tax system including home-owner grants for improvements such as energy conservation, disability alterations, etc. From a housing perspective, the introduction of a capital gains tax (with the exception of a principle residence) and the elimination of investment real estate as a tax shelter for other income (that resulted in the boom in the construction of apartment buildings prior to 1972) were said to have a

¹² The Victoria Real Estate Board <http://www.vreb.org/about-vreb/quality-of-life>, p. 4.

¹³ Tinney, City of Victoria Short-Term Vacation Rentals Report, p. 6.

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profound effect on the housing landscape across the country.¹⁴ Removing the incentives to build rental accommodation encouraged a market shift towards home ownership in the 1970s, particularly with the rise in popularity of the fragmented home-ownership model, known as strata title properties or “condominium” units.

During the early 1980s, with a downturn in the economy, the federal government offered interest free loans to developers in order to increase jobs in the construction industry and subsidize a small portion of units for low-income and special needs tenants. Increasingly however, the responsibility for housing has been devolved from the federal and provincial governments to local governments. This shift in the allocation of increasingly limited tax dollars onto municipal authorities is now placing ever greater pressures on taxpayers who must also carry the growing and costly infrastructure upgrades for roads, bridges, and ports, as well as utility, water, and sewage systems.

The housing market in this country has consistently favored home-owners. Canadian housing policy researcher, David Hulchanski, points out that Canada's housing system is comprised of a primary and secondary group, each with its own distinct and unequal range of government activities and subsidies. The primary part of the housing system represents the majority of Canadian households including most home-owners and those tenants who live in the higher end of the market. The secondary housing part consists of tenants in the lower portion of the rental market and lower-income home-owners in rural areas.

This dual housing policy recognized by all three levels of government assists home-owners and neglects tenants. Hulchanski suggests that because Canada has never had a policy of tenure neutrality, i.e. providing assistance to home-owners and tenants equally, the consequence is that the housing policy has subsidized home-ownership for the past 45 years.¹⁵

Today's home-owners in the country, on average have twice the income of tenant households. So, it is not surprising that housing developers and the municipal authorities, who regulate them, are committed to supporting the flow of benefits and amenities to wealthier homeowners. These may include re-writing bylaws such as those in the City of Victoria to encourage urban agriculture revenue-generating opportunities for property-owners, rain-water rewards to reduce stormwater user fees for home-owners, segregated off-leash dog walking parks for canine owners who live in private homes as well as the provision of property tax deferrals for senior home-owners. Few if any of these benefits are available to tenant households in the City of Victoria, 25 percent of who currently spend more than 50 percent of their before-tax household income on rent plus utilities¹⁶.

What is apparent in this cursory examination of the rental housing market is the dearth of information available on the status of renters, particularly their current needs and gaps in services. While Canada Mortgage and Housing (CMHC) collects rental housing data, it does so in a limited fashion, focusing on

¹⁴ The Rental Housing Index, Examining the Rental Housing Market in British Columbia, Hannah M. McDonald, UBC MSc. Planning Thesis, U.B.C., 2015, p. 5.

¹⁵ Ibid., p. 13.

¹⁶ Ibid., p. 23

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larger purpose-built rental structures and the break-down of units by key neighbourhoods. However, CMHC fails to identify smaller purpose-built rentals: apartments (with fewer than 3 units), rented single-family dwellings/duplexes/triplexes, rented condos, and secondary suites and accessory garden suites by neighbourhood or by age of structure. As a consequence, the private sector rental housing market profile remains incomplete at best, ignoring for the most part smaller non-corporate landlord properties. These house seasonal tenants, particularly students, 80 percent of whom cannot find accommodation on campus at the University of Victoria.

2.2 Victoria's rental housing market context

The months-long presence and plight of homeless people living in tents on the grass outside the B.C. Law Courts in downtown Victoria in 2016, covered by the local and national media, drew attention in a profound manner to the unresolved crisis of providing shelter for many of our most vulnerable citizens.

Although raised in a family home in the Lower Mainland, I have spent my entire adult life as a renter in many towns and cities across Canada. Based on my own experience as a tenant for 17 years in my father's birthplace, Victoria, I have witnessed the growing gentrification of my own neighbourhood, James Bay. I have also seen the growing displacement of hundreds of tenants due to the extensive refurbishment of high-rise apartments and the demolition of older homes replaced by multi-storey condominiums, well beyond the ability of many middle-income residents to buy or even to rent.

It is disconcerting to live in a place where home-ownership is an unattainable dream for many young working families. If city centres are transformed into high-rise "smart" glass towers with high security systems that welcome only well-heeled tourists accommodated in suites owned by absentee landlords, whose quality of life does the city really support and sustain?

As housing costs soar, even here in a quaint colonial outpost on the southern tip of Vancouver Island, tenants, who form the majority of the City's households, are facing a chronic rental shortage, exacerbated by consistently low vacancy rates. When not faced with eviction due to condo conversions, hundreds now are threatened by a growing 'renoviction' trend in the City. These factors are also compounded by sharp increases in rents for upgraded apartment units and luxury-priced condos, and an increasing trend among landlords to impose costly fixed-end leases to avoid rent controls. Not surprisingly, this precarious state of affairs weighs heavily upon students, seniors, and moderate income working people whose only affordable option is renting as opposed to buying a roof over their heads.

As if this were not enough, many new condo owners are now purchasing units as investment properties in the core area and surrounding neighbourhoods, while owners of single-family "character" home are building garden flats and converting their secondary suites. This is not being done to accommodate long-term tenants, but rather short-stay vacationers willing to pay premium prices for places near tourist attractions. This growing trend by property owners, property managers and corporate housing investors in major cities around the globe who use online platforms, like Airbnb, VRBO and others to

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market short-term vacation rentals, is now another factor reshaping the urban housing landscape. This notion of freedom to use one's property as an investment vehicle rather than a principal residence has potential negative consequences for many neighbourhoods by potentially limiting options for non-homeowners to find appropriate and affordable shelter.

This context has prompted me to ask: **What is the extent and nature of Airbnb listings in the City of Victoria? What are the implications of that information in relation to the rental housing market here as well as possible regulatory options for short-term vacation rentals in the City.**

2.3 Beyond the bravado, buildings, and beautiful gardens

The City of Victoria's Strategic Plan 2015-2018 states that: *"Victoria is a leading edge capital city that embraces the future and builds on the past ... Victoria is a city that is liveable, affordable, prosperous and vibrant, where we all work in partnership to create and seize opportunities and get things done."*¹⁷

Prior to the arrival of the European explorers in the late 18th century, Victoria was inhabited by the Coast Salish Nation including the Songhees and Esquimalt indigenous people. In 1841, the Hudson's Bay Company established its first trading post. Later a fort and settlement was built, followed by the City's development as a port, supply base and outfitting center in the Gold Rush of the 1850's. Victoria's position as a commercial center gradually diminished with the expansion of the trans-Canada railway, as roads and infrastructure for the province and growing international trading hub of Vancouver emerged in the early 20th century.

The provincial capital, incorporated in 1862, is home to a population of 83,000 and serves a metropolitan administrative center for a region comprised of 360,000 inhabitants. Greater Victoria's population is projected to grow by 4.5 percent every 5 years between 2010 and 2025,¹⁸ while the City's population is expected to increase by approximately 20,000, reaching 100,000 by 2041. The most salient changes in demographics over the next three decades¹⁹ are the proportion of residents over the age of 65 forecast to increase dramatically from 17% to 29% of the total population. A BMO Wealth Study recently indicated that 15 percent of Canadian baby boomers are planning to retire in Victoria. During the same time frame, the proportion of children and young adults is anticipated to decline; families are encouraged to seek accommodation on the booming West Shore or Saanich peninsula rather than in the city.

Today, the city's economy is based on providing jobs in government services, health care, and education and retail services. The City continues to fulfill its traditional role as a pre-eminent tourist destination and maritime service sector through its naval base and private sector shipyard maintenance work.

¹⁷ City of Victoria Strategic Plan 2015-2018, Amended February 2016, p. 1.

¹⁸ Mayor's Task Force on Economic Development and Prosperity, p. 29.

¹⁹ City of Victoria, Official Community Plan – July 2012 (Updated June 23, 2016), p. 21.

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However, the thrust of new economic initiatives is based on diversification through the expansion of a its preeminent high-tech industry comprised of more than 800 firms with 23,000 employees generating an annual revenue in excess of \$3.5 billion dollars.²⁰

Today more than 39 percent of the total income in the region depends on public sector employment, whereas tourism accounts for six percent of the regional income. Non-employment sources of income such as pensions, investments, and government transfer payments account for slightly more than one-third of Greater Victoria's total income.

The "City of Gardens", boasts of more than 1,000 hanging flower baskets in summer, offering residents and more than 4 million visitors annually a taste of its temperate climate, based on more than 2,000 hours of sunshine and 66 cm of rainfall yearly. Among its assets are: Victorian heritage architecture, a scenic Inner Harbour cityscape, natural green spaces including the venerable Beacon Hill Park, numerous walking and bike paths, not to mention its historic museum and other cultural amenities that invite both residents and visitors from afar to enjoy them.

The most pressing urban issues facing the City are those related to land management and development, significant infrastructure upgrades and transportation network redesign. But more importantly, one of the critical questions is how to accommodate the anticipated growth in population and changes in the regional economy over the next several decades. This is no small matter when the city and region are facing major natural hazards such as earthquakes, wind and storm surges, as well as climate change—which represent a significant threat to life and property. Little attention has however been paid as to how to mitigate such risks while furiously expanding high-priced residential development in the core. Without a serious emergency plan for the City, or a long-term development plan (taking into consideration high-risk areas and extensive reconstruction following a major disaster re ports, roads, bridges, utilities and underground services)—citizens and tourists alike would be left to fend for themselves.

Victoria's economy has traditionally relied on public administration jobs but these may be curtailed during long-term slow growth periods, while the tourism sector faces numerable challenges: a strong Canadian dollar, demanding cross-border security, higher energy costs associated with an island location and increased competition from the dozen surrounding regional municipalities offering greater supplies of commercial and industrial land and major retail expansion opportunities.

The most noticeable test, however, will be felt in the capacity of the City to integrate new ground-oriented housing under the existing zoning structure in a well-built environment. This is also compounded by the question of how to accommodate high to medium densities in the core area and housing within the neighbourhoods that is more affordable, and development in village areas that also supports shops, services and amenities within walking distance of households.

²⁰ Viatec <http://www.viatec.ca/cpages/about>

Few purpose-built apartments have been constructed over the past four decades. As a consequence, the market for condominiums, new multi-storey buildings and those converted to condos in high-rise apartment blocks (particularly in the downtown urban core areas) has increased the competition for both potential homeowners and real estate investors. Meanwhile, the older rental housing stock (built prior to 1971) is deteriorating or reaching the end of its life cycle and will eventually need to be replaced.

With the cost of land and construction in urban areas increasing significantly over the past decade, and growing servicing costs, municipal governments are expanding their tax base primarily through higher density, premium-priced multi-storey condominium properties. The growing trend toward neighbourhood gentrification poses a dilemma. Can affordable rental housing units be built in cities to fulfill the growing demand for 1) workforce housing, and 2) accommodation for many seniors on fixed incomes or those with special needs living on modest incomes. There is however a growing divide among home-owners and tenants when it comes to quality of housing in the city. While new housing units conform to the new seismic building codes, the old rental housing stock may be receiving a premium makeover but they are not being upgraded to seismic standards. After a major earthquake, it will be rental properties that will sustain the burden of catastrophic loss, and it will be tenants who will be obliged to live without shelter on the streets.

2.4 Airbnb and the “sharing” economy

The fast-growing “sharing” economy is emerging as a disruptive force reshaping the economy in transportation (Uber and Lyft ride-sharing/delivery services, or Google’s driverless cars), online retail platforms such as Amazon, social-media information sharing platforms like Facebook and Twitter, or shared travel accommodation platforms such as Airbnb, VRBO, and HomeAway.

Airbnb, one of the brightest stars of the ‘sharing economy,’ was established in 2008 after their American founders rented out an airbed in their spare room in San Francisco to bring in some extra cash. Almost ten million ‘shared’ lodgings listings later, this \$40 billion (US) home-sharing digital platform now does business in 190 plus countries and 34,000 cities— soundly trouncing the business valuations of their main competition, hotel chains like Hilton, Marriott, and Hyatt, while operating with limited regulation or oversight.^{21, 22} And, while many celebrate the arrival of juggernaut Airbnb on the urban landscape, (the largest lodging company in the world, with more than 3.1 million rooms), some see the heart of their cities imploding, like the people of Paris, France.²³

²¹ Matt Egan, “Hilton: We’re not scared of Airbnb”, CNN, October 28, 2015

<http://money.cnn.com/2015/10/28/investing/airbnb-hilton-hotels/>

²² Brian Solomon, “Airbnb Raising More Cash at \$30 Billion Valuation”, Forbes.com, Sept. 22, 2016.

<http://www.forbes.com/sites/briansolomon/2016/09/22/airbnb-fundraising-850-million-30-billion-valuation/#540496eb66f2>

²³ Alison Griswold, “Paris is blaming Airbnb for population declines in the heart of the city”, Quartz, Jan. 5, 2017.

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This year the company will have booked \$12.3 billion²⁴ in rentals all over the globe, while the number of guests is expected to soar to a half-billion by 2025 according to the investment firm Cowen & Company. Billed as an alternative accommodation service, this privately held company that does not disclose its revenue or losses, reportedly reached \$900 million in revenue in 2015.

This is remarkable for a “gig economy” company, almost a decade old that offers a digital platform linking home-owners looking to rent out surplus space with travellers seeking a local, non-hotel experience. Not your average home-sharing short-term sub-letting business, the Airbnb model promotes and facilitates a variety of financial services including insurance-like products to hosts and guests, while maintaining centralized control of all listings. In return, Airbnb takes a 3 percent commission (before fees and taxes) from home-owner “hosts” while “guests” pay Airbnb an additional service charge of approximately 6-12 percent on all bookings.

The company makes a number of claims concerning its positive impacts on the quality of life in cities whose “people-to-people platform ...by the people and for the people that was created during the Great Recession to help people around the world use what is typically their greatest expense, their home, to generate supplemental income.”

In November 2015, Airbnb launched its “community compact” as a first step in establishing relationships with the cities in which it does business. The purpose of such a commitment is to *“work with our community [of hosts] to help prevent short-term rentals from impacting the availability and cost of permanent housing for city residents”*.

It is precisely this underlying pledge to its home-sharing partners which is at the heart of whether this business model serves only homeowners and short-term vacation renters at the expense of long-term local tenants. Slee (2015)²⁵ argues that while the “sharing” economy allows its members “access” to the use of a variety of assets such as cars, power tools, talents of others and homes (whose owners are members of a self-regulated network) linked to each other by way of a peer-to-peer platform, the business model is a form of unregulated monopoly to maximize profits for the platform owners, intermediaries and retailers.

These alleged benign on-demand home-sharing platforms do more than disrupt the economies of expensive hotel chains. They foster a new form of privileged consumption, and market ‘lifestyle as a service’. Locals will find themselves expelled from their homes to satisfy the self-serving needs of short-term property owners catering to an influx of tourists. This will lead to a precarious, unsustainable state of affairs for all cultures and subcultures. As contradictions sharpen, politicians and citizens alike will be asked to choose sides; however, this matter is never addressed in the new STVR policy for the city.

²⁴ Katrina Brooker, “Airbnb’s Ambitious Second Act Will Take It Way Beyond Couch-Surfing”, Vanity Fair, November 2016, <http://www.vanityfair.com/news/2016/11/airbnb-brian-chesky>

²⁵ Tom Slee, *What’s Yours is Mine – Against the Sharing Economy* (OrBooks, January 1, 2015)

Chapter 3. Victoria's Short-Term Vacation Rental Market and the Long-Term Rental Housing Market

3.1 Salient features of the short-term vacation rental market in Victoria

The City of Victoria Staff Report, October 7, 2016 to Council on "Short Term Vacation Rentals"²⁶ contains a selection of testimonials from local residents extolling the benefits of this new tourism industry in town. These remarks focus, among other things on, "*12 Reasons to support Airbnb and the home-sharing economy*". These include everything from:

- assisting new home-buyers entering the housing market to pay off their mortgages,
- creating new service jobs as housekeepers, part-time maintenance contractors,
- relieving shortages in hotel space, and
- helping visitors stay in large family mansions that "might be sold, or bulldozed and replaced (often by foreign owners).

Other Airbnb supporters highlight the "nurturing community" virtues of the Airbnb experience for visiting grandparents who can stay nearby their families in neighbourhoods, as well as offering respite places for hospital patients, home-stay locations for visiting students and as "affordable getaways after exams". They go further by suggesting that by sharing secondary suites in homeowner-occupied houses and making connections with guests near and far, hosts can make an income that allows them to keep their homes and make a valuable contribution to local economy without any measurable negative impact on the existing rental stock in Victoria.

Apparently the Airbnb data shared by these supporters revealed that 539 hosts earned an average of \$5,700 annually for 49 days worth of tourist accommodation, generating more than \$3 million in revenue for the hosts and additional guest expenditures of \$5,128,000 for the local economy.

However, what these testimonials didn't say is that if these tourists came to Victoria, they would have spent their money on a host of goods and services whether or not they stayed in Airbnb units or in a hotel. **Furthermore, where is the evidence to assert that a tourist in Victoria is worth more than a permanent resident?** Tenants pay rent, buy groceries and other goods and services, pay income taxes, property taxes and utility fees. Airbnb tourists pay no lodging taxes, no sales tax - in fact, many receive GST rebates on their expenditures if they live outside of Canada.

Whatever one may think of the 'home-sharing' philosophy, the ever expanding mission of Airbnb is not only to become the premier if not global leader in the home-rental business but also a travel

²⁶ Liza Rogers, Community Connector & Consultant attachments and testimonials regarding support for Airbnb enterprises and the home sharing economy in Jonathan Tinney's, Short-Term Vacation Rentals Report, City of Victoria, October 7, 2016.

entertainment and activity broker to sell all sorts of services such as guided tours, musical outings, as well as transportation services which could put Airbnb in direct competition with other gig economy transport companies like Uber, Lyft and Google.

While there are no doubt many benefits that hosts derive from operating Airbnb rooms, suites, and entire homes, there is a growing body of anecdotal evidence that many of these alternative rental accommodations are located in the same areas that have a higher proportion of rental housing stock in the core areas and surrounding neighbourhoods. In an environment of soaring land values and premium-priced high-density multi-storey private developments in popular seaside tourist destinations (e.g. Victoria, Vancouver, San Francisco, Barcelona, or Venice), and skyrocketing rents due to a dwindling supply of affordable rental housing stock, long-term tenants (LTRs) are facing displacement pressure from new condo-dwelling investors and corporate Airbnb operators in these areas.

Enterprising property owners are seeking ever more profitable ways to maximize their return on their investment by converting affordable housing to unlicensed online hotels. The short-term vacation rental model, promoted by companies like Airbnb, poses serious questions as to whether long-term tenant needs are being sacrificed in favor of a city that expands its tax base by rewarding home-owners. Those without security of housing tenure are increasingly sent to the periphery of cities if not the hinterlands, where even less rental housing stock is available.

The City of Victoria’s short-term vacation rental (STVR) market, (approaching almost 1,000 units) is approximately 15 percent the size of the Vancouver market.

Table 1 - Growth of Airbnb Active Listings in Victoria 2008-2016

2008	1	2013	133
2010	5	2014	256
2011	22	2015	535
2012	62	2016	938

Source: Airdna LLC (US) <https://www.airdna.co/city/ca/victoria> - December, 2016.

Victoria has seen the spectacular growth of Airbnb units since the founding of the company in 2008. Particularly since 2012, the number of Airbnb listings has grown 15 fold consistent with a sharp increase multi-storey condominium construction projects in the downtown core and VicWest as well as mid-rise condos in James Bay.

Why do landlords prefer Airbnb guests to long-term tenants? Owners maintain flexibility and control in deciding who, when, what length of time, and how much to charge the occupant. They are not governed by any rent controls or tenancy legislation nor are they subject to any taxation or health and safety

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licensing requirements. Furthermore, payment is upfront and guaranteed by the booking platform; reviews are given for both prospective tenants and landlords, and through Airbnb's liability insurance option, any damage and repair costs related to guests are covered up to a value of one million dollars.

A Report to Council by the City of Victoria's Economic Development Office, dated October 16, 2014,²⁷ indicated a recommendation by staff to "continue strategic discussions with Airbnb towards a possible working partnership to address the core areas of concern."

This report summarized a few salient Airbnb statistics underlining the importance of this new revenue generating segment of the market benefitting homeowners with implications for the tourism industry. Apparently after Airbnb announced its first partnership with Portland, Oregon, the City of Victoria contacted the company "to express an interest for Victoria to be a partner in Canada".

In 2014, it was reported that more than 1,019 hosts used Airbnb since 2008, of whom 354 had active listings in 2014 serving 7,336 guests (April 2013-March 2014), equivalent to 30,017 guest nights with an average length of stay of 4.1 days. The staff report further reported that "the demographic using this site is just the type of visitor we want in our downtown."

The report also highlighted the City's "core areas of concern" in order to:

- "adapt and evolve as and where necessary the wording of our relevant zoning and bylaws covering the needs of those home owners providing their homes for short term rentals through sites such as Airbnb";
- "working to ensure a more even playing field for short-term accommodations by evolving towards a fair taxation approach (i.e. applying something similar to the hotel tax for Airbnb listings)";
- "working to ensure that Airbnb listings are available for emergency accommodations if required in the event of a disaster";
- "shared promotion of the city and neighbourhoods and local businesses as a leading tourist destination".

In 2016, the City of Victoria adopted amendments to the *Zoning Regulation Bylaw* to reduce parking requirements for secondary suites. It also revised regulations for such suites "to develop and implement programs and events to assist homeowners who may be interested in adding a new secondary suite—or legalizing an existing secondary suite—to understand the benefits and possibilities associated with secondary suites, and the requirements that must be met to establish them."²⁸

²⁷ Sage J. Baker, Economic Development, City of Victoria, Memo to Council: "Update re possible partnership with Airbnb", October 16, 2014.

²⁸ Jonathan Tinney, Director, Sustainable Planning & Community Development, City of Victoria, Memo to Council Re: Secondary Suites – Part I Regulatory Changes, October 28, 2016, p. 1.

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While these changes were made ostensibly to increase the number of livable, safe and affordable secondary suites as a rental option in the City, the thrust of this initiative was to offer developers a “proven way of adding gentle densification to neighbourhoods” as well as “improving affordability for homeowners by increasing their buying power at time of purchase, and offsetting mortgage costs through the course of ownership”.

This newly minted regulatory change simply means the City will not only allow homeowners to enhance the value of their property but also offer them a new income stream by legalizing the rental of secondary suites. The highest rate of return these days is a short-term vacation rental (the average being \$118/night in Victoria versus the average long-term rental of \$33/night).

In the absence of a housing inventory for Victoria or the Capital region, there are no statistics on the actual number of secondary and garden suites in the city. Time will tell whether these changes in bylaws will house more long-term renters in a market with 0.5 vacancy rate or whether they will simply enhance the income of home-owners at the expense of tenants. It also remains to be seen whether supporting online platforms that support the independent travelling public is simply a way of facilitating high-profit short-term rentals for landlords in urban centres while doing little to contain rising rents and protect dwindling rental housing stock.

The City may have expressed its concerns about the growing presence of an alternative accommodation industry; clearly, it has a keen interest in facilitating the growth of its residential tax base. Civic politicians have many expectations to meet. These include satisfying the complex needs of real estate development interests, a growing number of personal and commercial home-sharing enterprises, as well as promoting its traditional hospitality industry partners.

Many of the Airbnb listing photos and descriptions reveal they are located primarily in recently constructed premium priced high-rise condos with panoramic views of the Inner Harbour and the U.S. Olympic peninsula. Still others are located in larger “character” homes with self-contained suites or accessory garden cottages in the city's upscale neighbourhoods of James Bay, Fairfield and Fernwood. These patterns in the Victoria market reflect similar Airbnb results world-wide, where their lodging portfolio is comprised of two-thirds full-time entire units (almost half of which are condo or apartment-like accommodation) and the remainder are rented as private rooms.²⁹

While modest growth in new housing units has occurred in many of Victoria's neighbourhoods with the exception of the Downtown core, Harris Green, and VicWest (2006-2011), the largest concentrations of Airbnb units has occurred in neighbourhoods with the highest proportion of rental units: Downtown, Harris Green, Fairfield and James Bay. (See Table 2 below.)

²⁹ Ethan Wolff-Mann, “The Big Reason why Airbnb terrifies the hotel industry”, Yahoo Finance, Jan. 5, 2017. <http://finance.yahoo.com/news/airbnb-dwarfs-hotels-in-room-availability-162135372.html>

Table 2 - City of Victoria Neighbourhood Analysis of Airbnb listings versus Total Number of Housing Units, % Change in Number of Housing Units 2006-2011, and Housing Tenure

Neighbourhood	No. Airbnb Listings (Ave. Price per night)	%Airbnb Entire Listings/ % Multiple Units Listings	Total No. Housing Units	% Change Housing Units 2006-2011	(%) Units Rented Owned
Burnside Gorge	10 (\$120)	90/0	2,795	1	1,755 (63%) 1,040 (37%)
Downtown	134 (\$127)	87/40	1,425	68	1,040 (73%) 385 (27%)
Fairfield	85 (\$117)	75/31	6,780	1	3,735 (55%) 3,045 (45%)
Fernwood	66 (\$ 97)	71/70	4,840	-2	3,095 (64%) 1,750 (36%)
Gonzales	22 (\$120)	73/41	1,710	1	500 (29%) 1,205 (71%)
Harris Green	15 (\$108)	87/20	1,350	11	875 (65%) 475 (35%)
Hillside-Quadra	28 (\$ 81)	50/14	3,685	-1	2,205 (60%) 1,475 (40%)
James Bay	123 (\$141)	75/58	6,695	0	4,645 (69%) 2,045 (31%)
Jubilee	22 (\$101)	73/41	2,945	-1	1,780 (60%) 1,165 (40%)
North Park	32 (\$ 88)	69/28	2,120	1	1,640 (77%) 480 (23%)

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Oaklands	24 (\$ 94)	67/29	3,115	1	1,315 (42%) 1,800 (58%)
Rockland	34 (\$139)	53/47	1,830	-2	1,025 (56%) 805 (44%)
Victoria West	45 (\$117)	71/40	3,675	16	1,860 (51%) 1,815 (49%)
TOTAL	640 (\$118)	74/41	42,995	3	25,475 (59%)
City of Victoria					17,485 (41%)

Sources:

Murray Cox, InsideAirbnb.com – Victoria Airbnb listings, August, 1, 2016

Statistics Canada 2011 National Household Survey (City of Victoria website)

This data reveals that neighbourhoods with the highest proportion of rental units, also have the highest Airbnb rates per night (with the highest proportion of entire units in either newly built condos downtown and neighbourhoods within walking distance of the core area or in large character homes situated in Rockland).

As the Table 3 below indicates, there are several noticeable differences between the Victoria and Vancouver Airbnb statistics provided by Murray Cox (insideairbnb.com):

- higher proportion of Airbnb units in Victoria are for “entire homes”;
- higher proportion of multiple listings in Victoria (indicating they are likely to be operating as commercial enterprises as opposed to mortgage helpers);
- higher percentage occupancy, longer stays, and higher estimated monthly income for Airbnb hosts in Victoria.

Table 3 - Vancouver & Victoria Comparative Airbnb Statistics – 2015/16

Area	Total Listings	% Entire Homes	% Occupancy (days occup.)	Price/ Night	Est. Mthly. Income	% Multiple Listings
CRD	1,691	66.6	31 (114)	\$124	\$1,041	40
Victoria	640	74.4	38 (139)	\$118	\$1,277	40.5
James Bay	123	74.8	35 (126)	\$141	\$1,328	57.7
Downtown	134	87.3	45 (165)	\$127	\$1,681	39.6
Vancouver	4,728	67.2	24 (87)	\$127	\$ 844	33.3
Downtown	999	80.9	32 (116)	\$157	\$1,386	42.6
West End	593	70.3	26 (98)	\$118	\$ 832	28.3
Kitsilano	567	71.8	20 (72)	\$140	\$ 745	25.6

Sources:

Inside AirBnB – Vancouver (neighbourhoods) published Dec. 3, 2015 -
<http://insideairbnb.com/vancouver/>

Inside AirBnB - Capital Regional District and City of Victoria (neighbourhoods), published Aug. 1, 2016 -
<http://insideairbnb.com/victoria/>

What both Victoria and Vancouver Airbnb listings show is that the majority of listings are for “entire homes”. Many of these units are rented for more than 100 days per year (consistent with other metropolitan areas where Airbnb operates), suggesting that the owners are not using these units as their primary residences. Furthermore, the largest concentration of the home-sharing listings is in the downtown core and contiguous neighbourhoods that are in close proximity to major tourist attractions, entertainment, and restaurants.

A case can be made that those who are offering “entire homes” to travellers as opposed to long-term tenants are now fuelling a growing Airbnb sub-economy comprised of third-party property management companies. The purpose of these intermediaries is to help absentee owner “hosts” maximize their return on their assets by offering “guests”, concierge and security services as well as housekeeping and personal transportation and guide services.

While it is true that over 80 per cent of Airbnb hosts in Victoria offer single listings, as is shown in Table 4 below, the most lucrative segment of the short-term rental business (now euphemistically called a “home-sharing club”), comes from multiple listings. These are property owners or management firms offering two to five or more listings with higher-occupancy rates than single unit owners. These commercial interests, representing real estate developers or investment firms, often purchase multiple units in large residential strata title complexes are now operating flexible accommodation enterprises that rival the existing lodging industry. They have little incentive to serve the housing needs of long-term tenants.

Table 4 - A Profile of City of Victoria Airbnb Active Listings, December 2016

Total Number of Airbnb Active Listings (Dec/16): 937

- 337 in Downtown (36%); 140 in James Bay (15%)
- (49%) other neighbourhoods

Total Number of Airbnb Hosts: 647

- 532 hosts – single listing (82%)
- 115 multiple listing hosts (18%)
 - 73 hosts – 2 listings
 - 18 hosts – 3 listings
 - 10 hosts – 4 listings
 - 14 hosts – 5+ listings

694 listings (74%) are available for rent 4-12 months a year

243 listings (26%) are rented 4-12 months a year

Total Number of Airbnb Listings

Victoria (August 2015-August 2016) 955

Source: Airdna LLC (US) <https://www.airdna.co/city/ca/victoria> - December, 2016.

According to the documentation provided in the Staff Report to Council in the Fall of 2016 on Short-term Vacation Rentals³⁰, 539 hosts in 2015 hosted 16,070 guests (more than double 2013-14), typically about 49 days during the year for an average stay of 3.5 days generating an annual income of \$5,7000 for a typical host. This is however only a partial picture of the Airbnb “sharing” economy in Victoria.

Using the December 2016 Airdna statistics (based on 937 active listings) and a nightly average price of \$125 for units in Victoria, the smaller multiple listing hosts generated more than \$10 million for their owners, while the single unit hosts representing more than 80 percent of the owners generated slightly

³⁰ Tinney, City of Victoria Short-Term Vacation Rentals Report, Attachment 2, October 7. 2016.

more than half of that total. In other words, this novel home-sharing industry is putting more than \$15 million annually into the pockets of homeowners, yet it remains untaxed and unregulated.

What these short-term vacation rental statistics show is that in the traditionally low-season for the hospitality industry, in December 2016, there were 937 Airbnb listings and 410 Vacation Rentals By Owner (VRBO)—i.e. a minimum of 1,347 home-sharing listings for the City of Victoria.

On December 29, 2016, the Airbnb website indicated 300+ listings for Victoria, showing an average nightly rate of \$125 for shared rooms and entire units, and an average of \$129 per night for entire units. In the upscale neighbourhood of James Bay, there were 180 listings with an average nightly rate of \$137. More significant is the fact that 76% of these Airbnb listings were for entire units that garnered an average nightly premium of \$159.00.

The most lucrative Airbnb units are those operated as multiple long-term vacation rental listings. These “hosts” do not reside on the premises and operate these units as commercial accommodation enterprises through a property management or real estate development company. These multiple listing owners represent more than 20% of all listings that generate almost 70% of the revenue, estimated to be more than \$10 million annually for the City of Victoria market.

It remains to be seen whether those engaging in enterprising home-sharing activities (i.e. homeowners and online peer-to-peer accommodation platforms like Airbnb and VRBO) are willing to “share” both the benefits and the burdens of taxation and regulation like other sectors of the economy.

3.2 Victoria’s long-term rental housing market

3.2.1 Population and housing tenure

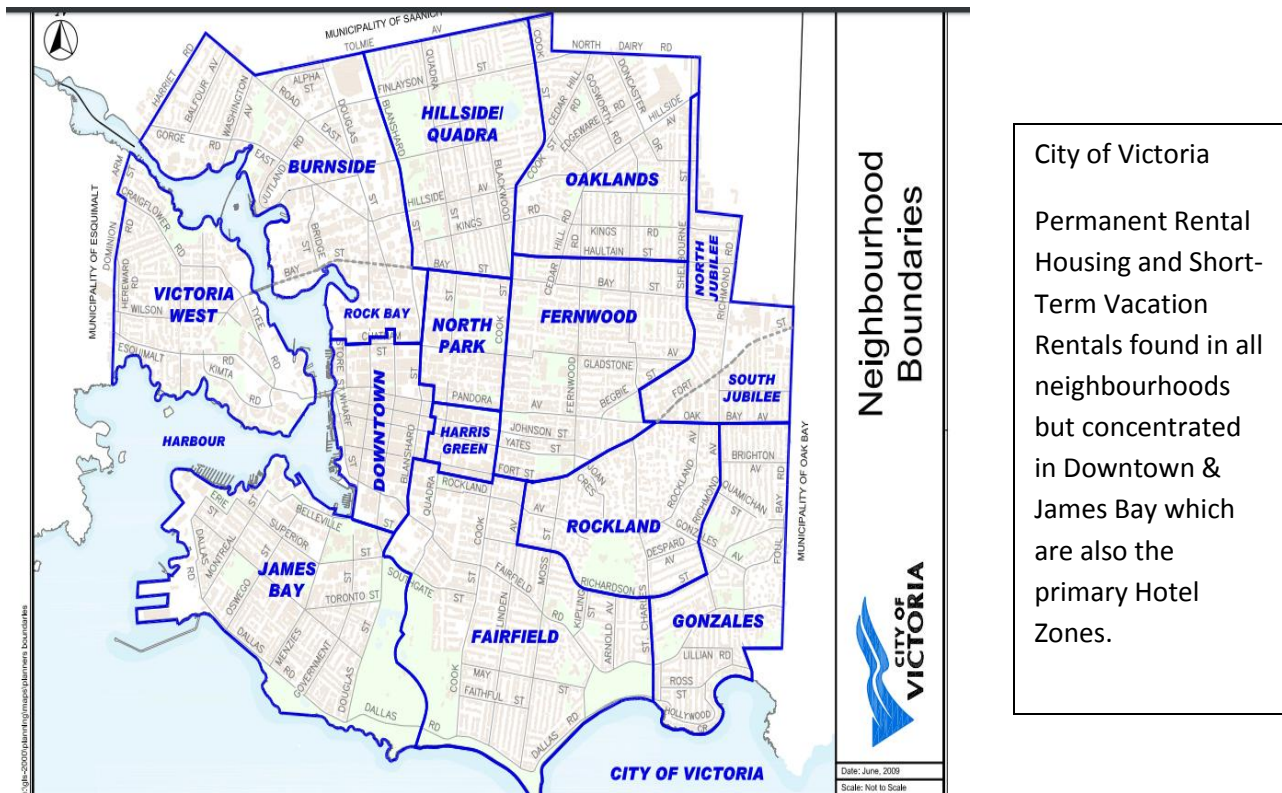
The City of Victoria, with a population of 80,017 as of the 2011 census³¹ is the 14th largest city in British Columbia and the capital of the province.

It represents 22.2 percent of the Capital Regional District population of 359,991, occupying only 2.9 percent (19.47 sq. km.) of the region’s land base. The proportion of the city’s population to the region has dropped only slightly since the turn of the millennium when it registered 22.8 percent (74,125).

The second largest municipality by population in the region after Saanich, Victoria has population density of 4,109 per sq. km., and a growth rate of 2.5 percent, lower than the region’s (4.3 percent).

The boundaries of Victoria’s 12 neighbourhoods provide bearings for situating the population, and residential dwellings, and hotel zones within the city (see Figure 1 below).

Figure 1 – Boundaries of Victoria’s 12 Neighbourhoods



Source: City of Victoria website

³¹ Focus on Geography Series, 2011 Census, Subdivision Victoria CY - <https://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-csd-eng.cfm?LANG=Eng&GK=CSD&GC=5917034>

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The 2011 Census reveals that the age group 0-14 years (7,285) accounted for 9.1% of Victoria's population, while the working age population 15-64 (58, 025) represented 72.5%, with the largest cohort being those aged 25-29. Almost 15,000 seniors – those aged 65 plus accounted for 18.4% of the population, almost 4% higher than the national average. The median age of Victorians is 41.9, which has increased slightly from 41.6 in 2006.

Of the 42,960 households residing in the City in 2011, approximately 34% lived in family units (with or without children). However the largest segment of Victoria households 21,070, were single-person households representing 49% of all households, a considerably higher proportion than live-alone households in B.C. (28.3%), and Canada (27.6%).

As Table 5 below indicates, the two most populous neighbourhoods in the city are Fairfield (11,650), and James Bay (11,240), (both of which lie adjacent to the Downtown core sharing access to Beacon Hill Park and views of the Inner and Outer Harbour) and comprise almost 30 percent of the City's population.

Table 5 - City of Victoria 2011 Population by Neighbourhood

Neighbourhood	2011	Percent
Burnside	5,860	7.3%
Downtown	2,740	3.4%
Fairfield	11,650	14.6%
Fernwood	9,425	11.8%
Gonzales	4,175	5.2%
Harris Green	1,870	2.3%
Hillside Quadra	7,245	9.1%
James Bay	11,240	14.0%
Jubilee	5,240	6.5%
North Park	3,050	3.8%
Oaklands	6,825	8.5%
Rockland	3,490	4.4%
Victoria West	6,805	8.5%
Total	80,015	100.00

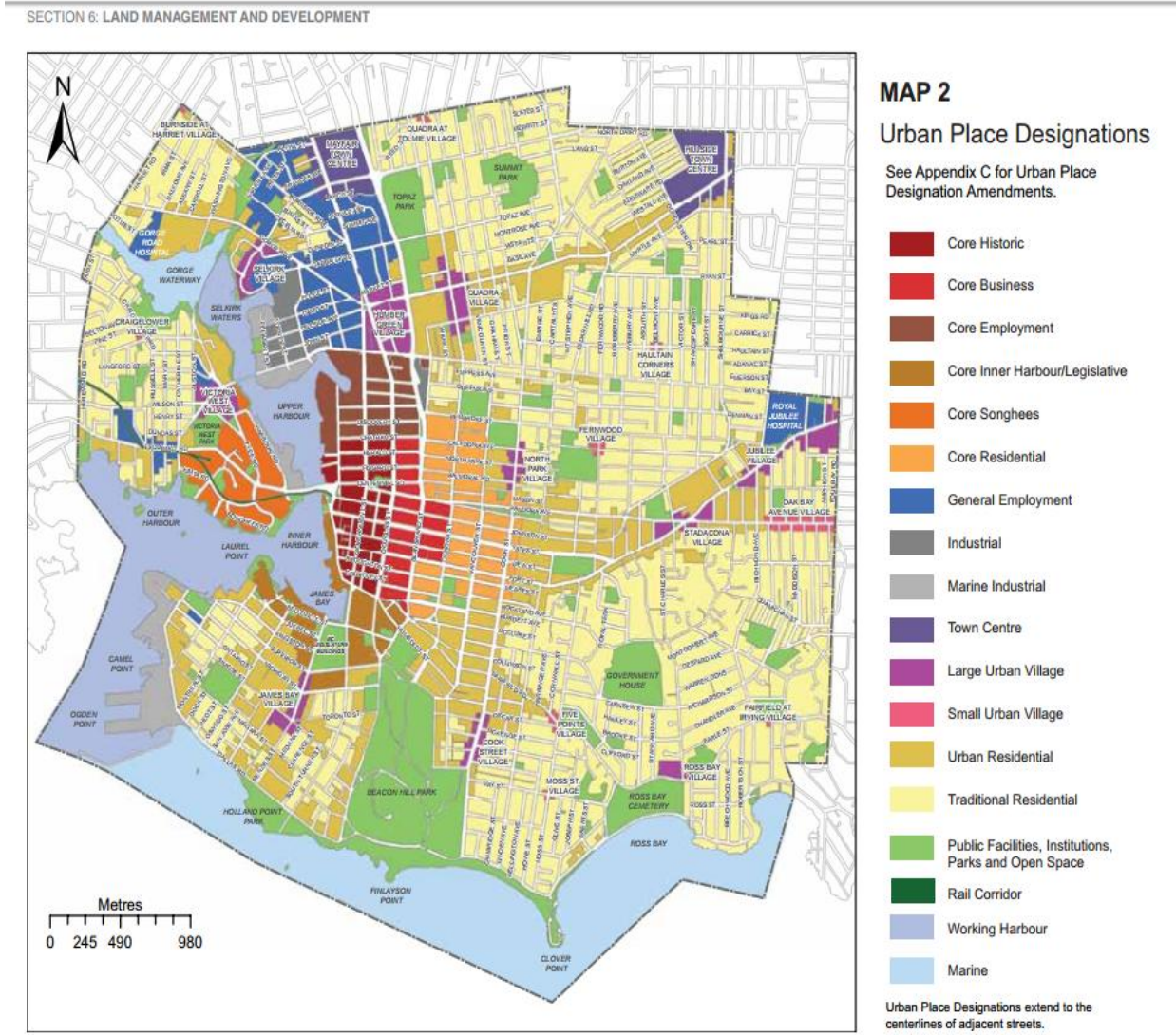
Source: Statistics Canada Census 2011

According to the City of Victoria's 2012 Official Community Plan, it is anticipated that over the next three decades "at least 20,000 new residents and associated housing growth is shared across the city in the following approximate proportions: 50% in the Urban Core; 40% in or within close walking distance of Town centres and Large Urban Villages; and 10% in Small Urban Villages and the remainder of the residential areas."³²

³² City of Victoria, 2012 Official Community Plan, p. 34.

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As seen in the map below, the Urban Core area (peach through burnt umber/red hues), includes a significant portion of Victoria West, Downtown, Harris Green, part of North Park, and the Inner Harbour side of James Bay. This is also the area that has seen the highest concentration of new condo construction and Airbnb growth in the City of Victoria since 2012.



Source: City of Victoria, 2012 Official Community Plan, p. 36

The City of Victoria reported in 2015³³ that of the new housing development units applied for from 2012 to 2015, 64% were located within the Urban Core, while 21% were located in or within walking distance of a Town Centre or Large Urban Village, 15% were located in a Small Urban Village or the remainder of the residential areas. In 2015 alone over 80% of the new development occurred within the Urban Core.

³³ City of Victoria, Official Community Plan Annual Review 2015, p. 12.

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This is the high-growth, high-density condo development target area, as well as where one also finds a concentration of premium-priced short-term vacation rental units.

It is anticipated that Victoria will accommodate a minimum of 20% of the region's cumulative new housing units over the next three decades, while the urban Core is expected to accommodate a minimum of 10 percent of the region's cumulative new housing units to 2041. In 2015, Victoria had accommodated 51% of the region's new housing units (total new units = 1,986), while the Urban Core had accommodated 22% (436 units)³⁴.

Despite the rising cost of housing during the last three decades, the trend of ownership in Victoria has been increasing from 34% in 1986 and 1981, 37% in 1996, 37.5% in 2001, 40.5% in 2006 and 41% in 2011. Tenants currently represent 59% of all Victoria occupied dwellings, which is the highest proportion in of all municipalities and towns in the Capital Regional District which has an average 34%.

As Table 6 indicates the neighbourhoods with the highest proportion of rental units are in the Urban Core (including Downtown, Harris Green, and North Park), as well as Fairfield, Fernwood, and James Bay.

Table 6 - City of Victoria 2011 Housing Tenure by Neighbourhood

Neighbourhood	Total Units 2011	Rented Units (Percent)
Burnside	2,795	1,755 (63%)
Downtown	1,425	1,040 (73%)
Fairfield	6,780	3,735 (55%)
Fernwood	4,840	3,095 (64%)
Gonzales	1,710	500 (29%)
Harris Green	1,350	875 (65%)
Hillside Quadra	3,685	2,205 (60%)
James Bay	6,695	4,645 (69%)
Jubilee	2,945	1,780 (60%)
North Park	2,120	1,640 (77%)
Oaklands	3,115	1,315 (42%)
Rockland	1,830	1,025 (56%)
Victoria West	3,675	1,860 (51%)
Total	42,955	25,475 (59%)

Source: Statistics Canada 2011 National Household Survey

Tenants are being squeezed in terms of a dwindling housing stock, vacancy rates below 1 per cent, and consistently high rents. And, it is long-term tenants who are also facing the impact of a growing "Airbnb effect". In fact, alternative short-term lodging is now seen as a more profitable business opportunity than providing long-term accommodation to the majority of the population: working households and modest income seniors who live side by side with tourists in nearby Airbnb units, licensed bed and breakfast, and hotels.

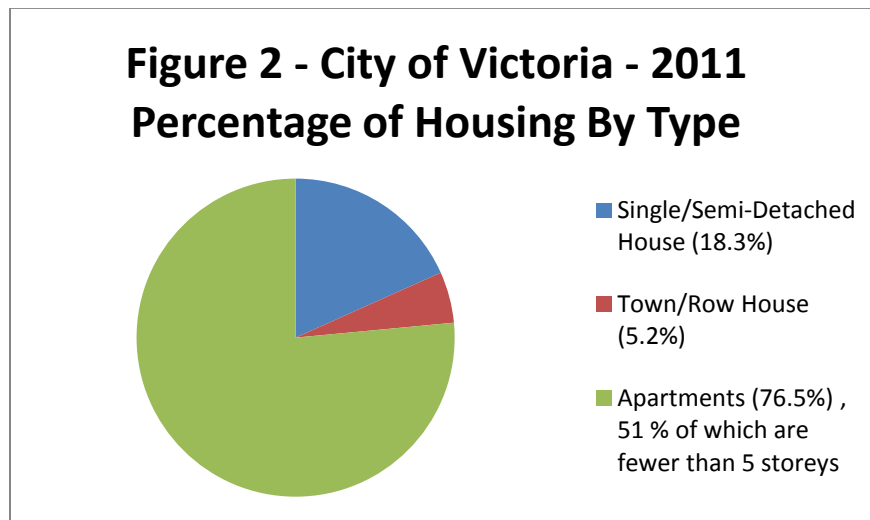
³⁴ City of Victoria, Official Community Plan Annual Review 2015, p. 14.

3.2.2 Composition and location of the housing stock

As of the 2011 Census, there were 42,955 private dwellings in Victoria's 12 neighbourhoods with a modest growth of 3 percent in the city's overall housing stock since 2006. Approximately 70 percent of the City's housing stock was built prior to 1981, with half of that construction occurring prior to 1961.

Little new housing stock has been added to the City, only 4,995 units (12%) between 1981 and 1990, with a slower rate of increase (10%) in the period 1991 and the turn of the century when 4,240 units were added. The years 2001-2011 saw a further decline to 8% in new construction, with only 3,550 units added to the housing stock.

Figure 2 below reveals that apartments account for the majority of Victoria's housing stock, with slightly more than 50% comprising low-rise multi-family rental accommodation with approximately 17 percent representing more than five storey apartment complexes.



Source: Statistics Canada Statistics Canada Census 2011

What these statistics do not reveal is the fact that in 2016, the City of Victoria lost 158 housing units in its apartment pool, while 289 units were added to the condo rental pool, and more than 400 units of accessory housing were added to the Greater Victoria housing stock.

What is often overlooked is the fact that between 2015 and 2016, Airbnb, a growing competitor in the rental housing market, leveraged an additional 403 units from the existing City of Victoria housing inventory to satisfy the needs of vacationers.

The table below presents a snapshot of the rental housing type in the Victoria Market, in 2010 and 2016.

Table 7 - City of Victoria Rental Housing Market Breakdown, 2010 and 2016

Housing Type	2010	2016	Change
<i>Apartment</i>			
Bachelor	2,161	2,268	+107
1 Bedroom	9,378	9,615	+237
2 Bedroom	4,111	4,238	+127
3 Bedroom	175	189	+ 14
Total	15,825	16,310	+485
<i>Condominium</i>			
All rented units	2,506	3,195	+689
<i>Other Secondary Rentals</i>			
Single Detached			
Semi-Det., Row, Duplex			
Other Secondary Suites	5,400 ¹	6,000 ²	+600
Total	23,731	25,195	1,774

Source: Canada Mortgage and Housing, Victoria CMA Rental Housing Market Reports, 2010-2016

^{1,2} Estimated number of Victoria households living in rental houses, secondary and garden suites based on Victoria households representing 28% of the total Victoria CMA households identified in the CMHC Rental Housing Market Reports 2012 and 2016.

Purpose-built apartments represent about 65% of the private rental accommodation market, rented condominiums - 13% of the market, with the remaining 24% representing secondary rentals in houses (single detached, semi-detached, row houses, as well as accessory suites and garden suites). The most significant growth has taken place in one-bedroom units comprising almost 59 percent of the purpose-built rental apartment stock.

One business publication³⁵ in June, 2016 reported that Victoria's hot real estate market is making it much more difficult for tenants to find accommodation in an already chronically tight rental market, with a vacancy rate now below 0.6%. There may be 50,836 rental units in the Capital Region but not enough to meet the demand. Often 30 to 40 prospective tenants turn up at open houses for new rental housing units.

According to the City of Victoria's 2012 Official Community Plan and Victoria's Housing Strategy 2016-2015³⁶, over the next decade, the city will need an additional 13,500 apartment units (of which 3,000 are expected to be new market and affordable rental units with 550 units allocated for families while the remainder will be private condo units). In addition to the addition of apartment-type units, the city

³⁵ Business in Vancouver, "Victoria landlords swamped by tenant demand", June 26, 2016
<https://www.biv.com/article/2016/6/victoria-landlords-swamped-tenant-demand/>

³⁶ City of Victoria Housing Strategy 2016-2025, p. 4.

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expects to build more than 2,700 ground-oriented units to accommodate another 20,000 residents by 2041.

With 1,524 rental apartments currently under construction in Victoria and another 1,070 approved by the City, according to a survey conducted by Colliers International, tenants should be relieved. But often they are in for a surprise when they learn that the new rents for these small units often exceed \$1,775 a month in a building designed to meet the needs of a moderate-income work force.

The changing landscape for rental housing means that the average price "per door" for a Victoria rental apartment building is now \$185,500, up from \$152,200 a year ago, while the average capitalization rate on smaller Victoria rental buildings is 4.3 percent, about one percent higher than the average in Vancouver, where the per-door price for apartment buildings is now in excess of \$240,000.

While other secondary rental units estimated to represent less than one-third of the rental housing stock in the city, little is known about this sub-component of Victoria's rental housing market.

Victoria has seen a growth in construction of residential strata title (fragmented ownership) units or condominiums, particularly since the turn of millennium. By 2010, there were 11,064 condo units in the city. And, by 2016 condos represented the largest segment of the new housing market in the City of Victoria with an additional 1,400 units, bringing the total to 12,553 strata title units.³⁷

Between 2010 and 2016, there has been a steady growth of rental condo units in Victoria from 2,506 to 3,195. The number of rental condo units built now exceeds the number of new apartments and secondary unit increases recorded between 2010 and 2016. And, over the past five years, the proportion of condos in the City's strata title rental pool has gone from 22.7% to 25.5%.

According to the Canada Mortgage and Housing Corporation's Fall 2016 Rental Market Report for the Victoria Census Metropolitan Area, there were a total of 16,310 rental apartment units in the city, 158 less than the previous year.

The current CMHC neighbourhood apartment rental distribution breakdown is as follows:

- 17% is located in Cook Street Area (Fairfield neighbourhood with 2,793 units);
- 21% is located in James Bay with 3,461 units;
- 29% is located in Fort Street Area (Downtown with 4,606 units);
- 33% is located in the remaining 9 neighbourhoods, accommodating 5,450 apartment units.

While the City shows a general increase in housing units overall for the period 2010 to 2016, what is however significant in this year over year CMHC apartment rental housing data is the loss of 5 per cent (179 of the apartment units) in the James Bay area between October 2015 and October 2016.

³⁷ Rental Market Statistics, City of Victoria, Fall 2016, based on previous figures reported from CMHC Rental Market Housing for Victoria CMA, 2010-2015.

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In fact, this neighbourhood has seen a steady decline in the total number of purpose built apartment units from 3,656 to 3,461 over the past four years. This neighbourhood is also witnessing an average of 5 demolitions dwelling units annually to make way for mid-rise condo developments as well as major condo housing projects like Capital Park and the growth of Airbnb rental units in the same neighbourhood.

While the CMHC statistics provides a general breakdown of apartment rental housing units by general areas, there is no similar breakdown of the condo rental housing market.

As can be seen by the table below, by far the most predominant form of housing development in the period 2012-2015 has been the increase in multi-storey condominium developments focused in four neighbourhoods:

- Downtown,
- VicWest,
- James Bay, and
- Fairfield.

These neighbourhoods are also those with the highest proportion of rental units in the city, and the highest concentration of short-term vacation rental units in Victoria.

Table 8 - Condo Unit Development Permits Issued in Victoria 2012-2015

Neighbourhoods	2012	2013	2014	2015	Total
Burnside Gorge	19	13	21	0	53
Downtown	290	33	113	221	657
Fairfield	9	36	13	104	162
Fernwood	2	2	36	35	75
Gonzales	1	24	0	0	25
Harris Green	93	0	0	0	93
Hillside Quadra	0	0	0	0	0
James Bay	57	92	12	28	189
Jubilee	0	0	9	0	9
North Park	0	6	8	0	14
Oaklands	0	9	1	16	26
Rocklands	0	0	0	22	22
Vic West	212	0	69	3	284
City of Victoria	683	215	282	429	1,609

Source: City of Victoria, Official Community Plan Annual Reviews for 2015 and 2016.

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With more than a two fold increase in the number of condo permits issued between 2012 and 2016, it is not surprising to see a simultaneous phenomenal growth of short-term rental units in the city—reflected in a 15 fold increase in Victoria's Airbnb listings from 62 units in 2012 to 938 in 2016. (see Table 1). The vast majority of these listings are for newly constructed condo units in the downtown area, James Bay, and Fairfield.

3.2.3 Vacancy rates, rents, and demand for rental housing

The 2016 CMHC Rental Market Survey indicated that the vacancy rate in the Victoria CMA declined to 0.5 percent in October 2016. While the vacancy rate in the City of Victoria saw a steady increase from 1.3% in 2010 to 2.4% in 2013, it has been on a downward trend to 1.3% in 2014, and .6% in 2015 (compared to an average of 3.5% for the national vacancy rate).³⁸

Despite the introduction of new units to the rental housing market, supply remained constant as older housing units were removed from the market for renovation. With a limited increase in supply and an increase in demand that resulted from 2,100 new households moving into the Capital Region in 2016, the vacancy rate declined. The largest group of migrants into Victoria are the 16-24 age group who are more likely to rent than to buy.

The City of Victoria reported 158 fewer housing units than the previous year as aging units were removed from the overall housing stock for renovation, particularly in the James Bay neighbourhood.

As can be seen from Table 9 below, the City experienced close to a 6 percent increase in rents, with James Bay seeing an average rent hike of 7.5% as older multi-storey apartment blocks are refurbished while more five-storey condo units are being built to replace aging single-family dwellings.

Table 9 - City of Victoria Selected Private Rental Housing Statistics for 2016

Zone	Vacancy Rate	Availability Rate	% Change of Average Room Rent Since 2015
<i>Apartments</i>			
Cook Street Area	0.5%	0.7%	4.0% (\$ 980 ave.)
Fort Street Area	0.3%	0.9%	4.8% (\$ 987 ave.)
James Bay Area	0.8%	1.3%	7.5% (\$1,075 ave.)
Remainder of City	0.5%	1.0%	6.7% (\$ 964 ave.)
All 4 Areas of City	0.5%	1.0%	5.9% (\$ 997 ave.)
<i>Rented Condos</i>			
City of Victoria	0.7%	Not avail.	- 1.9% (\$1,419 ave.)
<i>Secondary Rentals</i>			
Victoria CMA	Not Avail.	Not avail.	1.9% (\$1,289 ave.)

Source: CMHC Rental Market Report, Victoria CMA, Fall 2016

³⁸ City of Victoria Housing Report 2015, p. 9.

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In contrast, rental condos in the city saw an average 1.9% decrease in rents, with a slightly higher vacancy rate than purpose-built apartments and an average rent of \$400 more than an apartment unit, as more are built throughout the urban core. Although there are few details on changes in vacancy and availability rates for rented homes and accessory suites, rent rate increases were much lower than for purpose-built apartments, with an average of \$1,289 or about \$300 more a month than a purpose-built apartment unit. What is evident however is that few tenants have an option to move in the face of rising rents given both low vacancy and availability rates in all areas of the city.

Of the city's 16,310 apartment units in 2016, 59% are one-bedroom, 26% are two-bedroom units, 14% are bachelor units, and only one percent are three-bedroom units. While 485 apartment units were added to the City's rental housing stock between 2010 and 2016, almost half were one-bedroom units with less than a 3 percent addition to the three-bedroom family units in the rental pool.

To give some idea of the housing rental supply side shortfall, one urban housing researcher³⁹ used the "Bedroom Shortfall Indicator" to measure the minimum number of additional bedrooms a community needs to house all renters at all income levels suitably. She indicated that that Victoria needs a 6.7% increase [2,540] in its total number of rental bedrooms in order to house all rental households (particularly those in the \$0-\$57,772+ range) suitably.

The Fall 2016 CMHC Rental Market Report indicates that the average monthly rent for a 2-bedroom condo is \$1,511 (or a pro-rated nightly rate of \$50.36); for a 2-bedroom purpose-built apartment unit is \$1,188 (or a pro-rated nightly rate of \$39.60). Compare these rates to the average nightly rental rate for an Airbnb unit in the City of Victoria at \$118.00. It is not difficult to see why property owners might try to capitalize on the higher revenue generating opportunities afforded by a short-term vacation renter rather than a local tenant.

What is even more disconcerting is the fact that on December 11, 2016, Airbnb units available (938) exceeded the available rental units (723) for the Greater Victoria area posted on Craigslist. While 140 Airbnb units were listed as available in James Bay, there were only 49 rental units available for local residents in the same neighbourhood.

The City of Victoria represented 38% of the Craigslist rental unit listings for the Greater Victoria area of which 49 were listed in James Bay, 125 listed downtown and 102 listed elsewhere in the city. The Downtown area and James Bay rental listings represented 63% of the total rental housing portfolio.

In comparison, Murray Cox of InsideAirbnb determined that of the 640 Airbnb listings in the City of Victoria in August 2016, 123 were listed in James Bay while 134 were listed in the downtown area (comprising 40% of the Airbnb portfolio for the city). It is interesting to note that these short-term vacation listings exceed the rental units currently available both in James Bay and downtown.

³⁹ Hannah M. McDonald, U.B.C. MSc. Planning Thesis, The Rental Housing Index: Examining the Rental Housing Market in British Columbia, March 2015, p. 29.

3.2.4 The impact of Airbnb units on the secondary rental housing market

The following table estimates the impact of Airbnb units on the secondary market rental units (rented condos plus rented houses and accessory suites), as well as all rental housing in the City of Victoria in October 2016.

Table 10 - A Comparison of Victoria's Airbnb Units to Secondary Rental Housing Market Units in 2016

<i>Housing Description</i>	<i>No. of Units</i>	<i>Vacancy Rate</i>	<i>Estimated # of units Vacant Oct. 2016</i>
Rented Condos (2016)	3,195	0.7 %	22
Estimated # Households in Secondary Rented Houses and Accessory Suites (2016)	5,978	Est. Vac. Rate 0.7%	42
Estimated Total Number of Secondary Mkt. Rentals	9,173		64
Estimated Total Number Of All Market Rentals	25,570		
Estimated Full-Time Entire Airbnb Listings (representing 74.4% of all ABB units)	697		
F-T Entire Airbnb Listings as % of Secondary Mkt. Rentals	7.6%		
Full-Time Entire Airbnb Listings as % of All Market Rentals	0.27%		

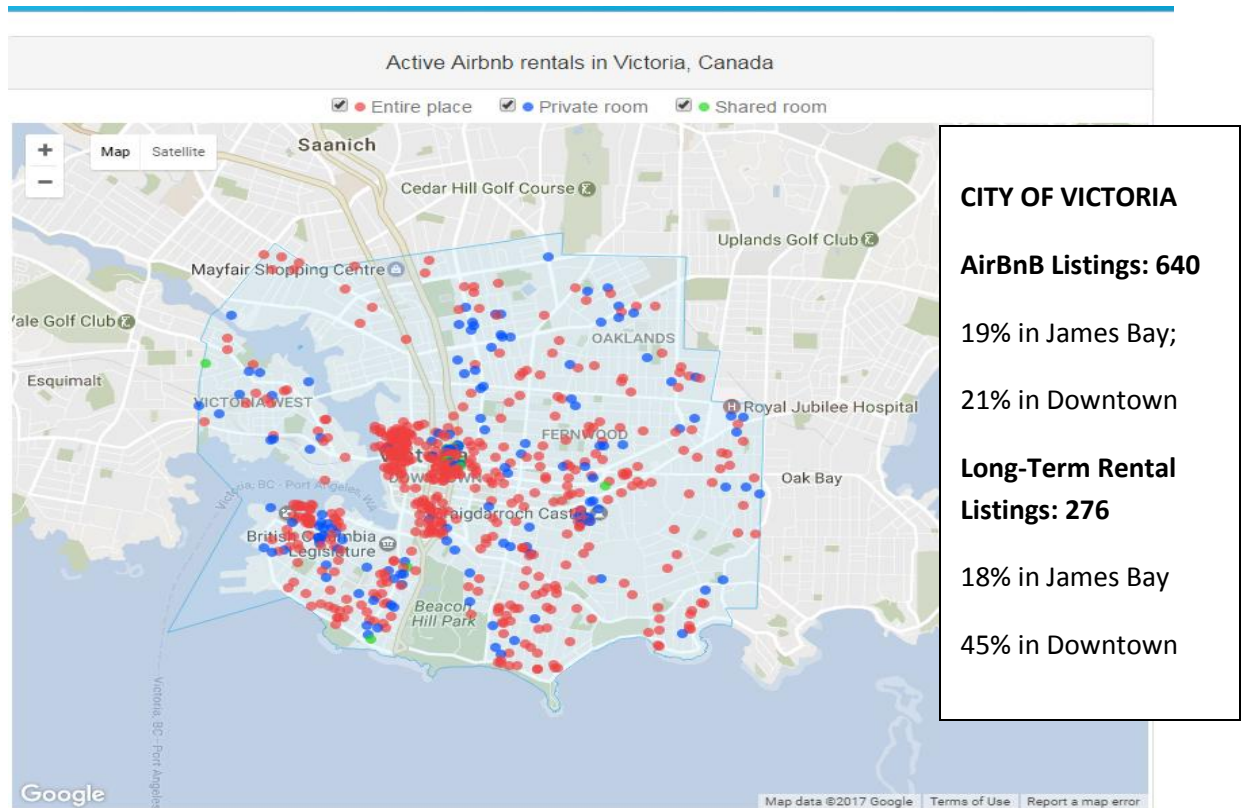
While rental condos represent approximately 12% of the total rental housing market, they represent 35% of the secondary market for rental housing (which includes condos and rented houses and accessory suites). Airbnb listings currently represent approximately 7.6% of the secondary rental market units as few purpose-built rental units cater to tourists. However this may change as developers such as Concert Properties (owners of the Q-Apartments, the refurbished Queen Victoria Hotel), list some units as short-term vacation rentals. Their newly approved seniors' apartment complex ("The Tapestry" in James Bay) will offer "sought-after" rental units with amenities plus 42 luxury condo units, and the option of providing short-term stay units for respite use or as guest suites.

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What is clear from this cursory analysis is that the total number of full-time entire Airbnb units is more than ten times the number of estimated vacant secondary market suites in the City of Victoria in October 2016. The issue remains as to whether these units would have remained empty were it not for the financial incentives built in to short-term rentals as opposed to long-term rentals. And, the unanswered question is whether the competition for housing that Airbnb creates is pitting tourists against tenants as is shown below in two areas of the City—James Bay and the Downtown core.

In James Bay there currently exist an estimated 1,577 condo units (based on BC Assessment and Victoria Real Estate Board sales data). Assuming 25% are rented, that would mean approximately 315 are in the rental pool. With a vacancy rate of 0.7%, there are roughly two vacant units. However, there are more than 100 entire Airbnb units currently available in James Bay to tourists. (Craigslist indicates there are currently 49 residential vacancies in James Bay, predominantly apartments). One can only conclude, therefore, that condo property owners who do not reside in their units find it more profitable to rent on a short-term basis to vacationers than to provide accommodation to a long-term tenant.

The map of the region below shows Victoria's 12 neighbourhoods; two principal areas – Downtown and James Bay, represented 40% of all Airbnb listings at the end of August, 2016 (according to data provided by Murray Cox of InsideAirbnb.com) and 63% of all long-term rental listings (December 2016).

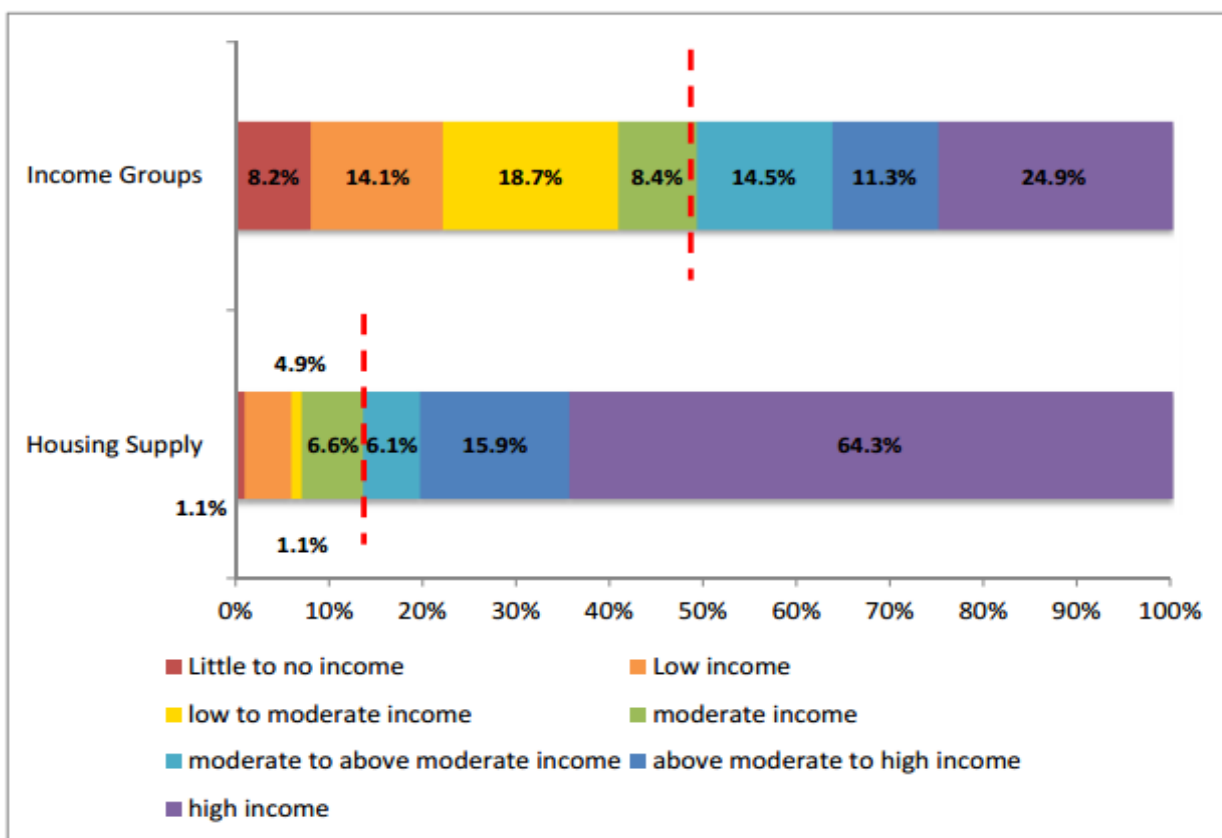


3.2.5 Household incomes of renters and owners

The Capital Regional Housing Gap Analysis & Data Book, prepared by the Community Social Planning Council of Greater Victoria in August 2015, paints a stark picture of the significant mismatch between the income of the region’s population and the cost of available housing.

When only 13.7 percent of the region’s homes are affordable for 50 percent of its households, this is a sufficient reason to suggest that there is a major disconnect between the ability of families to pay for a roof over their heads. In other words, there are only 22,000 housing units priced at 30 percent of the gross income of 79,000 households. Clearly there is an oversupply of housing for upper income groups, who although they represent less than 25 percent of households, more than 64 percent of the housing in the CRD is built to meet the needs of this income group.

Figure 3 - Percentage of Different Income Groups in the Capital Regional District Compared With Affordable Housing Supply for Each Group



Sources: 2014 Facility Count (GVCEH), BC Housing (2015), Canada Mortgage and Housing Corporation (2014), and 2011 National Household Survey, Statistics Canada

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As of 2010, the average income of a private household in Victoria was \$59,648 compared to \$76,131 for the Capital Region; the average income of a one-person private household was \$37,763 (who comprised 37% of Victoria households in 2010), while the average income of two-or-more person households was \$78,583.

According to Statistics Canada's 2011 National Household Survey, in Greater Victoria, the average monthly shelter cost for an owned dwelling was \$1,265 compared to the average monthly shelter costs for rented dwellings at \$986. However in terms of the proportion of households that spent 30 percent or more of household income on shelter costs, this represented only 22.6 percent for owner households compared to 46.6 percent for tenant households.

A family paying more than 30 percent of before-tax income for housing is referred to as a "cost burdened" household—a commonly accepted definition for unaffordable rent. The housing affordability issues faced by lower income households means that after paying the rent, there is far less money left over to purchase food, medications, and other necessities. **Approximately 6,250 renter households spend more than 50% of their income on rent in Victoria; 56% of whom live in one-bedroom apartments.**⁴⁰

What do these figures mean in relation to housing costs elsewhere in the world? Canadians spend more of their income on housing than almost anyone in the world, according to a 2014 BlackRock Inc. survey. Ranked third globally, they spend approximately 43 percent of each dollar of household income on housing-related costs (mortgage, rent, and utilities) compared to the Netherlands at 51 percent, Sweden at 45 percent, U.S. at 42 percent, Germany at 35 percent and China at 15 percent.⁴¹

3.2.6 Residential building costs and home prices

The average cost of a home in British Columbia is \$100,000 more than the national average⁴². The upcoming new building code changes to ensure more energy efficient housing could add an additional \$40,000 to the price, which when financed over time may amount to \$67,000. These changes, in addition to an inadequate supply of housing, high land costs, zoning restrictions, permit fees and processes are all seen to contribute to capital region's housing affordability issue, according to the Victoria Residential Builders Association.

According to the Victoria Real Estate Board Multiple Listing Service, the average price of a single-family home in the City of Victoria in 2015 was \$651,810, a six percent increase over 2014 prices. This is about 11 times the average annual household income in the City of Victoria. The average price of a condominium was \$353,409 in 2015, a one percent increase over 2014 prices, and about six times the average annual household income in the city. The average price of a townhouse was \$488,861 in 2015, a three percent increase over 2014 prices.

⁴⁰ The Rental Housing Index: Examining the Rental Housing Market in British Columbia. Hannah M. McDonald, MSc. Planning Thesis, UBC, March 2015, p. 44

⁴¹ MarketWired.com, October 30, 2014 <http://www.marketwired.com/press-release/blackrock-survey-canadians-prioritize-long-term-financial-goals-but-their-short-term-1962637.htm>

⁴² Les Leyne, "Province taken to task for housing costs", Times Colonist, October 13, 2016.

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The current housing market is in a strong upward cycle benefiting from a low interest rate, a low Canadian dollar, and a low housing inventory in areas close to the urban core and amenities. The Multiple Listing Service Home Price Index benchmark for a single family home in Victoria in November increased 23.9 percent over the same time last year to \$753,800 compared to the average price increase of six percent for homes across the country. According to the Victoria Real Estate Board, in 2016, the city's housing market experienced record-breaking numbers—10,722 properties sold, exceeding the previous record of 9,241 sales in 1991.⁴³

Figures released by B.C. Assessment last week indicate that the City of Victoria saw the second highest jump in assessment values in the Capital Regional District. Oak Bay, with the highest property assessments, recorded a 31 percent jump, followed by the City of Victoria with a 24 percent increase in property values for a typical single-family home going from \$547,200 to \$679,000, and a typical strata residential increase in the range of five to 25 percent.⁴⁴

An important factor for change in the local housing market is growing presence of the foreign buyer. Compared to previous months, October 2016 showed an increase in foreign buyers in the Capital Region. They represented 6.3 percent of property transfer taxes, and may well be a factor influencing the shortage of housing supply in the region.

In terms of debt levels per capita, City of Victoria residents⁴⁵ rank number seven in a list of 25 Canadian cities with the following government debts per capita: \$812 (Municipal), \$14,454 (Provincial), and \$33,261 (Federal). In addition, British Columbians carry an average consumer (non-mortgage) debt of \$38,682, the highest of any province in the country, while according to Statistics Canada's 2011 National Household Survey, only 55.9 percent of owner households in Greater Victoria are currently paying a mortgage.

3.2.7 Housing market changes and the impact of gentrification in James Bay

The shoreline of James Bay was once home to Coast Salish villages and their sacred burial grounds now host today's Laurel Point Inn and condominiums.

Transformation of this ancient landscape also came in the form of early colonial settlements in the middle of the nineteenth century. The first properties were built by the wealthy elite in the southern and eastern portions of the neighbourhood.

Many decades later cottages were built on the west side to accommodate workers who found jobs in the fishing, grain-handling, ship-building, and industrial hub. In the 1960s, when painful economic times saw rising poverty rates among families living in the neighbourhood, relief came in the form of Federal-Government-supported housing programs which saw the demolition of the older wood-frame cottages

⁴³ Kendra Wong, "Industrial rental rates on the rise, says expert", Victoria News, January 13, 2017.

⁴⁴ Kendra Wong, "Property assessments jump 24 per cent in Victoria", Victoria News, January 13, 2017

⁴⁵ CBC News, Canada's Debt Map – How much governments have borrowed where you live, May 3, 2016. <http://www.cbc.ca/news/politics/national-debt-map-canada-1.3557745>

and their replacement by several high-rise rental towers. This influx of newcomers spurred the development of our retail centres and hotels in the 1970s.

The next wave of multi-storey residential condo development occurred at the turn of the new millennium with reclamation of the former industrial land on the western periphery. Once again, the demolition of older single-family homes and low-rise apartment buildings throughout James Bay give rise to higher-density condo developments as newcomers from Alberta, the Prairies, Ontario and the Lower-Mainland take up residence here.

The multi-million dollar multi-storey residential and commercial redevelopment of the former Legislative Precinct property along Superior and the Douglas corner by Concert/Jawl Property developers promises a significant shift in the character of the neighbourhood.

Throughout these shifts in land use and migration of individuals and families to the neighbourhood, there is both development and displacement. James Bay represents a mixed use neighbourhood with diverse income groups and choice of housing that includes subsidized rental units and family-oriented townhouses, market rental units for moderate to middle-income households, and luxury properties (both single-family dwellings and condo units).

As land values increase, older structures are demolished and replaced by higher-density, higher-value multi-storey properties, while existing high-rise apartment towers are refurbished to generate higher rents. Indigenous people and lower-income individuals and families are obliged to move. Now many seniors who are long-time renters in the neighbourhood are now obliged to move. But those who are displaced are finding it increasingly difficult to find an affordable place to live in a city that is no longer capable of meeting their needs.

Over 80 percent of the Capital Region's housing supply is categorized as above-moderate to high income units, while moderate to high-income households represent less than 36 per cent of the population. In August, 2016 there were 43 properties for sale in James Bay ranging from a low of \$79,000 to five properties priced at more than one million dollars. In addition, there were 123 short-stay listings of private dwellings available in James Bay at more than \$170 a night.

And, as James Bay becomes gentrified, community organizations that had traditionally provided activities and services to residents now find that 30 to 40 per cent of their clientele are drawn from elsewhere in Victoria. Meanwhile, the nearby hotels are now offering recreational amenities and customized programs that appeal to the more affluent members of the community.

James Bay is no longer an inclusive diverse neighbourhood. The gap is ever widening between the "haves" and the "have nots". Since the beginning of new millennium, James Bay has transformed itself into an exclusive enclave of privileged property owners who keen to promote and protect their interests. Concierge services in condo complexes and self-catered vacation suites now cater to their needs in recreation, dining etc. Not surprisingly, the upscale newcomers and retirees are also looking for opportunities to shape the future of their community through their own urban design preferences, or

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exercise their influence in planning and managing of parks and recreation or choice of suitable public art.

As the City and the neighbourhood undertakes the development and planning of its future urban landscape, perhaps this is a time to reflect upon what we as citizens want and need, as much as what role citizens can play in a place that many long-time residents still call their home.

Victoria is now the recipient of affluent newcomers: Vancouverites cashing out on homes and buying condos here, Prairie (particularly Alberta retirees) seeking a comfortable climate and cozy condos, well-paid civil servants and high-tech millennials who like to bike or walk to work, and a small but growing cohort of overseas investors seeking a safe place to park their funds while their children pursue an education here. But what does the housing market look like in James Bay?

There are 1,716 detached and semi-detached houses, duplexes, and townhouses in James Bay, and an estimated 1,577 condo units. According to The Mark Imhoff Group, there have been 214 residential units sold in James Bay since the beginning of the year: 56.6% were condo units, 24.2% single-family units, and 19.2% townhouses. The average selling price for a home in this neighbourhood is now \$612,583. This may not be a surprise to many who have witnessed the residential demolition trend in the City (400 between 2006 and 2015). In 2015, 15 demolition permits were issued in James Bay, representing 26 percent of the houses demolished by the city.

But this snapshot does not represent the whole picture. Eleven homes (representing 20 percent of the single family dwellings) sold for more than a million dollars. And 10 condo units, primarily in the seaside Shoal Point area changed hands for more than a million dollars. These units represent 8% of the strata title properties); two sold for more than two million dollars, and one for a whopping \$5.5 million.

Meanwhile, James Bay tenants are facing an average 7.5 percent increase in rents – the highest in the city. In many cases, a 30 to 40 percent hike in shelter costs is not uncommon for newly “refurbished” rental suites in high-rise towers. A glance at Craigslist in early December 2016 showed that in a rental housing market with a vacancy rate of near zero, there were fewer than 50 units available at an average rent of \$1,726 per month.

The real estate market is competitive place for homeowners, renters, and now tourists. However, the homeowner has an advantage the renter does not, to offer a spare room or an entire unit to a tourist who offers higher income opportunities than a permanent tenant. The popular online accommodation website Airbnb now offers 938 short-term stay residential accommodations in Victoria in December 2016, (78% of which are for entire suites). This suggests that in the “sharing economy”, temporary residential rentals are now thriving businesses especially for multiple unit commercial property owners.

There are currently 158 residential units⁴⁶ available for rent in James Bay, of which 69 percent are dedicated to short-term vacation rentals, while 38 percent are available to local residents for long-term

⁴⁶ 131 residential units as of December 11, 2016 comprised of 49 Craigslist rental units in James Bay, plus 109 full-time equivalent Airbnb units (140 units x 75% entire homes)

accommodation. Surely when more rental units are available to tourists than to residents, one can only conclude that a roof over one's head is now becoming a luxury not a basic necessity.

Kyle Kerr, Director of the Victoria Real Estate Board, has noticed that "the short-term vacation rental market has definitely increased in the last two to three years in Victoria, but there are only about 15 to 20 buildings in Greater Victoria that have the legal Transient Zoning which allows these types of rentals." He added that "the condos found in buildings that legally allow STVRs generally sell for more money than normal condos in the long term."

As BC cities grapple with how to regulate online vacation rental broker platforms, economic impact studies are being commissioned by Airbnb⁴⁷ to suggest that money going into the hands of hosts has a positive ripple effect throughout the economy in terms of tourist expenditures on food, entertainment, and shopping. Such arguments ignore the long-term economic benefit of rental households who live and work in the city; their taxes contribute to infrastructure improvements and their purchases sustain many needed small businesses and services in the community that do not rely on tourists.

It remains to be seen whether quaint seaside Victoria at the southern tip of Vancouver Island will become another Venice, Italy⁴⁸ – a popular destination for tourists accommodated in short-term vacation rental units – a place devoid of long-term residents who are the foundation of any healthy, sustainable community.

⁴⁷ "Suite deal? Airbnb study touts economic benefits of short-term rentals in Vancouver", Business in Vancouver, November 9, 2016. <https://www.biv.com/article/2016/11/suite-deal-airbnb-study-touts-economic-benefits-sh/>

⁴⁸ Benjamin Mack, "Tourism overwhelms vanishing Venice", November 9, 2012. <http://www.dw.com/en/tourism-overwhelms-vanishing-venice/a-16364608>

Chapter 4. Implications of the Expanding Short-Term Rental Sector on Victoria's Tourist Accommodation Market

A Grant Thornton Report prepared for Tourism Victoria in June, 2011 indicated that there were 197 accommodation properties (8,905 rooms) in the Greater Victoria area, generating \$163 million in room revenue in 2010, based on an average 63 percent occupancy and an average Daily Room Rate in the survey sample of \$121.50. By 2015, the annual occupancy rate had increased to 73 percent while the average Daily Rate had increased to \$151.70, and revenue per available room had increased to \$110.70.

According to the October 2016 Victoria Tourism Bulletin, prepared by Chemistry Consulting Group, the average occupancy rate for October 2016 was 70.6% compared to 65.4% the previous year while the year to date occupancy reach 77% with an average Daily Room Rate of \$164.49 with a Revenue per available Room rate of \$126.77 up more than \$16 from the previous year. By 2019, Victoria is expected to have the fifth highest per-room value in Canada.⁴⁹

It would appear that the Mayor's Economic Development Task Force's target of achieving a 72% hotel room occupancy rate by 2016 on a sustained basis has already been met. A hotel occupancy rate above 70 percent means a profitable return on investment to hoteliers, and thereby it becomes the threshold above which additional capital may flow into this sector for expansion.

While potential build-out of the hotel industry may be possible, it remains an expensive option in comparison to the flexible and marginal cost of adding additional short-term rental units on alternative accommodation platforms such as Airbnb, VRBO, HomeAway etc. This is where the growth of short-term rentals may hinder the expansion plans of the profitable hotel industry.

The Canadian Tourism Human Resource Council estimated there were 23,646 jobs in 2010 in Greater Victoria's tourism industry—approximately 20 percent were employed in the accommodation sector (earning an average annual salary of \$26,782), while the majority of jobs were in the food and beverage industries. It should be noted that 46% of Greater Victoria's population in 2010 had an income under \$30,000 compared to 51% for B.C. and 50% for Canada.

In November, 2016, the general manager of the Inn at Laurel Point (in James Bay Victoria, BC), estimated that there were about a thousand Airbnb listings in the City that compete with the local hotel industry, but do not pay similar fees and taxes.

Tom Caton, CEO of Airdna⁵⁰, a third-party consulting firm that analyzes Airbnb occupancy rates, revenue and seasonal demand, disputed the claims that the home-sharing platform is not to blame for rental housing shortages experienced in Victoria, Vancouver, or elsewhere around the world. He indicated that his firm's data showed that Victoria had only 422 active listings for entire Airbnb units in November

⁴⁹ Victoria Tourism Bulletin, (prepared by Chemistry Consulting Group), September 2016, p. 1

⁵⁰ Deborah Wilson, "Airbnb impact on rents, hotels in Victoria minimal, analyst says", CBC, December 8, 2016. <http://www.cbc.ca/news/canada/british-columbia/airbnb-victoria-vancouver-rental-vacancy-hotels-1.3886623>

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2016, not far from the estimate of 300 Airbnb units taken out of the city's long-term rental housing pool by urban planning consultant, Jay Wollenberg.⁵¹

According to Airdna, the 422 active Airbnb listings are equivalent to 191 hotel rooms at 100 percent occupancy for one month, and possibly 100 apartment units not available to residents of Victoria. However considering the fact that there were only 723 vacant rental units in Greater Victoria (according to Craigslist for December 11, 2016), and 276 vacant units in the City of Victoria, this could represent a loss of 36% of rental housing units in the City alone.

While Airdna may be trying to minimize the impact that short-term vacation rentals have on the city, it would appear that tenants are feeling the negative impact as are hoteliers. And, in this traditionally low-season for hotel occupancy, it would appear that the number of entire unit Airbnb active listings has climbed to 574, representing 77.7 percent of all Airbnb listings for December 24, 2016 according to the Airdna website.

Some may say there is little to be concerned about especially when Victoria's 58 hotels seem to be flourishing with more than three million overnight visitors annually to the provincial capital. Today, tourists outnumber locals by 37 to 1. And with close to 30 hotels located in the City's Inner Harbour, this area is also home to the largest concentration of long-term renters in the city.

A recent report from Boston University,⁵² studied the case of Airbnb, a prominent platform for short-term accommodation. The research team assessed its entry into the state of Texas, in particular, Austin where Airbnb supply is the highest, in order to quantify its impact on the Texas hotel industry over the subsequent decade. Their study indicates that, "in Texas, each additional 10% increase in the size of the Airbnb market resulted in a 0.39% decrease in hotel room revenue. ...These effects are primarily driven by Austin, where Airbnb inventory has grown extremely rapidly over the past few years, resulting in an estimated revenue impact of 8-10% for the most vulnerable hotels in Austin".

This report estimated that Airbnb's "entry into the Texas market has had a quantifiable negative impact on local hotel room revenue. Short-term vacation rental units appear to provide a viable, alternative for certain traditional types of overnight accommodation, particularly families or large group gatherings that seek lower priced rooms (particularly those in the budget to mid-range tiers).

In the Victoria tourism accommodation market, Airbnb listings compete directly with the hotel industry, most notably in the mid-tier market (2,400 units) represent 55 percent of all hotel rooms and the upper tier (1,489 units) 34 percent of all hotel rooms, and budget tier (502 units), comprise 11 percent of all

⁵¹ Jay Wollenberg, Coriolis Consulting Corp. Short Term Vacation Rentals Policy Report to City of Victoria, 5 October 2016 -<https://victoria.civicweb.net/FileStorage/00E137E00A9F4567B7F94C2CDAEBCE34-attach%201%20short%20term%20vacation.PDF>

⁵² The Rise of the Sharing Economy: Estimating the Impact of Airbnb on the Hotel Industry, Georgios Zervas (Boston University), John W. Byers (Boston University), David Proserpio (University of Southern California), Revised Nov. 18, 2016, pp 1-3.

the rooms. This assessment is based on hotel accommodation data provided by Chemistryconsulting.ca (Victoria Lodging Results – October 2016) and findings reported by Ethan Wolff-Man:

“Survey data from DG-Research.com shows the biggest target is on the backs of midscale hotels. Around 43% of Airbnb guests would have chosen midscale hotels, compared to just 4% that would have chosen an upscale hotel, and economy hotels, which were replaced by Airbnb’s 18% of the time. Similarly, Airbnb cannibalizes extended stay options more, perhaps owing to the fact that a full lodging with a kitchen has a leg up on a hotel room’s mini fridge.”⁵³

4.1 A snapshot of short-term vacation rentals, long-term rentals, and tourist accommodation in James Bay

One area of inquiry that is often overlooked is the impact of short-term vacation rentals on permanent rental housing and hotel accommodation uses that all exist in same neighbourhood.

With a population of almost 12,000 (and a density per sq. km. three times the city average), and 59% of its households living in rental accommodation, James Bay is also home to over half of downtown Victoria’s commercial tourist accommodation industry (see Table 11 on the following page).

This neighbourhood hosts 17 hotels and motels (1,666 rooms of which more than 60% fall into the budget to mid-range room price category), plus 15 licensed bed and breakfasts (79 rooms), and more than 180 Airbnb units in December 2016 according to Airdna.com. This is equivalent to an estimated 380 rooms, in other words another Grand Pacific Hotel in the neighbourhood. Murray Cox of InsideAirbnb.com⁵⁴ revealed that in late summer 2016, more than 75 percent of the Airbnb listings in the neighbourhood were for entire units.

These short-term rentals, appealing to leisure and business travelers, now compete with traditional hotel accommodation suppliers, extended stay properties (like the Royal Scot Hotel and Embassy Inn), as well as licensed bed and breakfasts, especially in James Bay. On the other hand, hotels such as the 46-year-old, 12-storey Harbour Towers⁵⁵ are following the trend of previous hotel owners, (like the Queen Victoria and Dominion), who converted their properties to residential use. Harbour Towers has applied to rezone and redevelop their 189-room building into a 219-unit residential property. All this is taking place at a time when hotels are enjoying an average 76% occupancy rate. It appears that residential units are now more profitable than hotel rooms, even in a tight tourist accommodation market.

⁵³ Ethan Wolff-Mann, “The big reason why Airbnb terrifies the hotel industry”, Yahoo Finance, January 5, 2017 <http://finance.yahoo.com/news/airbnb-dwarfs-hotels-in-room-availability-162135372.html>

⁵⁴ Murray Cox, InsideAirbnb.com (listings for James Bay, 1 August 2016) <http://insideairbnb.com/victoria/?neighbourhood=James%20Bay&filterEntireHomes=false&filterHighlyAvailable=false&filterRecentReviews=false&filterMultiListings=false>

⁵⁵ Andrew Duffy, “Tourists face tight market for Victoria hotel rooms”, Times Colonist, January 8, 2017. <http://www.timescolonist.com/business/tourists-face-tight-market-for-victoria-hotel-rooms-1.6612263>

Table 11 - Tourism Accommodation Market in James Bay Victoria

17 MOTELS, HOTELS & TIMESHARES (1,666 Rooms)		PRIVATE SHORT-TERM VACATION RENTALS (187 Airbnb Listings)
Admiral Inn (H)	32	
Best Western Inner Harbour (H)	74	
Coast Victoria Harbourside (H)	132	
Days Inn (H)	71	
Embassy Inn (H)	70	
Gatsby Mansion (H)	9	
Harbour Towers (H)	196	
Helm's Inn (H)	40	
Huntingdon Manor (H)	110	
Hotel Grand Pacific (H)	308	
Inn at Laurel Point (H)	196	
James Bay Inn (H)	40	
Oswego Hotel (H)	80	
Rosewood Inn (H)	17	
Royal Scot (H)	176	
Surf Motel (M)	14	
Worldmark (Timeshare)	92	
15 LICENSES BED & BREAKFASTS (79 Rooms)		
Albion Manor	9	
Ashcroft House B&B	5	
Carriage House B&B	4	
Fisher House B&B	4	
Fisherman's Wharf B&B	2	
Gingerbread Cottage	2	
Haterleigh Heritage Inn	6	
Heathergate House	7	
John Lewis House B&B	2	
Marketa's B&B	12	
Menzies Manor	7	
Robert Porter House B&B	6	
Victoria Harbour Walk Suite	1	
Oceanic House	9	
Victoria Vacation House	3	
<i>Source: Primary Research – Web-based Listings for Properties in James Bay</i>		

Table 12 - 2016 Tourism Accommodation Market Revenue¹ in James Bay, Victoria

Category of Accommodation (Total)	No. of Rooms	Ave. Nightly Room Revenue
Motel, Hotel & Timeshare properties (17)	1,666 ²	\$ 135 ²
Licensed Bed & Breakfast properties (15)	79 ³	\$ 140
Private Short-Term Vacation Rentals (180) (Airbnb Listings, Dec. 2016, entire units =140)	140 Listings ⁴	\$ 159 ⁵
Total Transient Accommodation Property Owners (172)	1,885 ⁶	

Sources:

¹ Includes Hotels, Motels, Timeshares, Licensed Bed & Breakfasts, and Private Short-Term Vacation Rental Properties.

²Hotel room capacity primary research: 17 James Bay hotel proprietors represent 56% of 30 hotel properties in the Downtown & Inner Harbour and 52.2% of total room capacity of all City of Victoria Inner Harbour hotels (total 3,186 rooms) and Average Nightly Room Revenue from Inner Harbour Hotels - \$135 for 2016, DVBA Tourism Victoria Lodgings Statistics 2016.

³Licensed Bed & Breakfast primary research by the author (room capacity not available).

⁴Data based on December 29, 2016 Airbnb listings. Airbnb listings represent 80% of all transient accommodation property owners in James Bay and almost 10% of the lodging supply. Value of Airbnb market in James Bay estimated to be \$2.7 million annually based on derived Airdna and Inside Airbnb data, compared to more than \$16 million dollars in revenue for Airbnb units in Victoria in 2016.

⁵AirBnB website listings for James Bay, Victoria on December 29, 2016.

⁶Estimated visitor accommodation capacity (based on double occupancy rooms) is 3,770.

The current year to date Downtown/Inner Harbour hotel room rate is \$172.00, while the Luxury Hotel Room Rate to date is \$211, a mid-tier room rate is \$146, and a budget-tier room is priced at \$98.

The nightly room rate at this time of year for hotels in James Bay hotels ranges from a low of \$79 at the James Bay Inn to more than \$189 at the Hotel Grand Pacific. This is a premium rate when compared to licensed Bed and Breakfasts which charge a minimum of \$125 for the smallest units, while the average nightly rate for entire Airbnb units in the neighbourhood is \$159. This is in sharp contrast to the average

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pro-rated nightly long-term rental rate ranging from \$36.00 to \$50.00 charged by landlords to permanent tenants living in 3,416 private apartment units in James Bay.

These results have direct implications for hotels, travelers, and policy makers. Paul Nursey, CEO of Tourism Victoria, at the Union of BC Municipalities annual meeting in September 2016, that a rise in speculators buying vacation rentals is accelerating an "absolute crisis" of scarce housing. He added that the Airbnb multiple listing rental units were operating like "shadow hotels" without paying taxes or being regulated like the existing commercial tourism accommodation operators.

For hotel managers, the competition from peer-to-peer short-term accommodation platforms is not something to be ignored. As the Boston University study points out the Airbnb platform has near zero marginal cost, i.e. rooms can be added to or removed from the database, with negligible overhead costs. This allows Airbnb "hosts" to expand or contract the supply of rooms in a short time frame to meet changing seasonal demand, or to handle special event accommodation needs. In contrast, increasing the permanent hotel room supply involves sizeable capital investment on the part of hotel owners, causing significant marginal cost increases for hotel chains.

What Airbnb can do which hotels cannot, due to zoning regulations, is to leverage the existing housing inventory by potentially expanding its supply wherever houses or condo units already exist. Furthermore, Airbnb is preparing to offer a wider range of products and services than hotels including: a wide range of self-catered full amenity units and concierge services, flights, excursions and personalized activities at the destination, transportation, liability insurance for owners, and an easy booking and payment platform.

What travelers enjoy are the benefits of "collaborative consumerism" which usually means lower prices due to increased competition for accommodation, and leveraging purchasing power to secure personalized services for tourists.

While municipal governments have traditionally relied in part on tax receipts from well-regulated industries such as hotels, bars and restaurants, as well as taxis and tour buses, the new short-term accommodation and personalized tourist services industry is based on disruptive digital technology and privacy protection. This "sharing economy" segment, like others in the field of 'peer-to-peer' personal transportation, remain for the most part outside the ability of local authorities to regulate or enforce tax collection and remittances.

As the housing market becomes commoditized as an investment income asset class, i.e. profitable short-term rental enterprises, working individuals unable to purchase an affordable home are obliged to seek a dwindling supply of permanent rental accommodation at soaring prices. Cities that are popular tourist destinations are being transformed into a booming ghost hotel industry that values tourists and their higher discretionary expenditures more than long-term tenants who live and work in the community.

4.2 What's missing from this picture?

The overlooked quality of life costs associated with an exploding short-term vacation rental market are rarely included in the rosy "home-sharing" picture, particularly in urban tourist destinations. These include: increased traffic volume, congestion as well as safety and security concerns; increased property damage, motor vehicle accidents with pedestrians and cyclists, and anti-social behavior – noise from partying, or substance abuse related criminal activity associated a non-resident population.

The City of Victoria points to its history 20 years ago, in finding a flexible solution to address the insufficient hotel inventory required to accommodate the influx of tourists and athletes to the 1994 Commonwealth Games. Bed-&-Breakfast vacation rentals in the Capital Region were the answer, and it took more than five years to bring them into compliance in terms of oversight, regulations, and taxation.

The critical difference is that today, it is one "collaborative consumer" international corporation using its economic leverage and new technology to flout oversight under the guise of "privacy protection" of its hosts, or its unwillingness to accept the regulatory and taxation authority of states, provinces, or cities.

In sharp contrast to coping with an exceptional circumstance of housing people for a special event, by permitting B&Bs as a permanent, but small, segment of the hospitality industry, today this growing informal, unregulated and unlicensed home-based rental business is negatively impacting the traditional hotel industry market but also the long-term rental housing market needed by workers, students, and seniors living on fixed incomes.

To suggest that the "sharing economy" has benefits for everyone is not the case. Renting or leasing of "underutilized assets" – such as empty rooms or entire suites helps home-owners in order to supplement their income or help pay down their mortgage and living expenses, assists travellers to find cheaper accommodation, but government sees no net benefit in terms of taxes collected to defray its services. And, renters cannot participate in the "sharing" economy benefits as provincial legislation often precludes the rental of "surplus space" in their apartments without the permission of their landlord.

With the growing concentration of services, amenities and attractions in the urban core areas of tourist destination cities, there is increased competition among owners of property to secure the highest return on their investments – in this case the short-term vacationer at the expense of the long-term tenant. As more and more accessory housing units, condos, and character homes are converted to commercial "accommodation" uses, modest-income workers, students, and seniors are displaced to the margins of the city far from convenient transportation, services, and employment or educational opportunities.

The Airbnb peer-to-peer business model is transforming the accommodation and travel excursion industry but also reshaping the city, its role in society, and whose interests will be ultimately be served.

The issue facing popular tourist destination cities is how to avoid catering exclusively to leisure travellers that will result in displacing local residents who have traditionally formed the backbone of the economy and social fabric of their communities.

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As peer-to-peer online lodging platforms proliferate and disrupt the traditional commercial accommodation market, hotels may well use the Airbnb platform as a sales channel offering micro-boutique holiday units under a new brand of centrally-managed, fully-serviced, dispersed units throughout a city. What is to prevent the majority of downtown condo units from being purchased by corporate commercial property interests or hospitality industry investors and converting them into short-term vacation rentals and flipping them when conditions change? Or, what steps, if any, will be taken by local government to curb evictions on the part residential real estate owners who wish to convert some or all of their existing apartment units into short-term rental vacation units at the expense of long-term tenants?

If a City with a chronic housing shortage that maintains no inventory of housing for its inhabitants, no monitoring and licensing of short-term rentals, and no record of the nature and volume of residential evictions, is upholding a duty of care that applies to all its citizens, then why do we have a housing crisis?

That the growing level of impoverishment and homeless in our cities is seen as an individual moral failing invites more than a few questions. Are victims of evictions and homelessness to blame for the accommodation crisis in cities like Victoria? Are those who are trying to cope with a precarious housing situation responsible for the deregulation of private housing sector, rezoning of prime real estate, or the transformation of cities into investment hubs for finance capital? If a system and its decision-makers that allow landlords, property developers and financiers to routinely dispossess and displace the youth, the poor, the elderly, or those with physical and mental disabilities in order to enrich themselves but cannot be held accountable, then who can?

Who matters the most to local governments – actual residents who live and work in the community? Or, speculative property investors and tourists who contribute little to maintaining the urban infrastructure? If short-term vacation renters and owners are not taxed, who will pay for education and health care facilities, police and emergency services, parks and recreation, not to mention the roadways and utility systems? Does urban growth at any cost mean sacrificing the long-term needs of permanent residents seeking rental accommodation to satisfy the short-term gains from short-term rentals that benefit only home-owners?

Chapter 5. Conclusions and Housing Policy Implications

In this chapter, I will focus on the preliminary conclusions of this assessment— the impact of short-term vacation rentals on the housing needs of Victorians, particularly on rental housing stock for tenants who represent the majority of households in the capital city.

While the Mayor and Council of the City of Victoria have long recognized the primary concern of the majority of residents, the need for affordable housing, they are also trying to balance this with the need to accommodate an anticipated population increase of 20,000 over the next three decades. By expanding the tax base, principally through residential property redevelopment and infill densification of the built-environment in the core area and surrounding neighbourhoods, the City hopes to meet its modest housing growth targets.

What is evident, particularly over the past five years, has been:

- Sharp increase in the construction higher-priced fragmented ownership properties.
- Conversion and refurbishment of older multi-storey apartments to strata title units and construction of new high-rise private condo units.
- Little replacement rental housing stock that meets the financial constraints of modest income tenant households in the city – workers, students, and seniors;
- Low vacancy rates, displacement of existing tenants when new owners redevelop the multi-storey multi-family properties, and substantially increased rents charged.
- Promotion of the “sharing” economy which relies on the notion of renting or leasing out the use of an underutilized asset – a car, a house, tools. However it is not a change of use or an additional use; it is simply monetizing the substitution of a temporary secondary user for the permanent primary user and owner of the asset.
- Phenomenal growth of high-profit margin short-term vacation rental units focused in the urban core which is also the location of the hotel industry and the traditional rental housing market infrastructure.

Regrettably, in spite of its Official Community Plan adopted in 2012, the City has not invested in any serious long-term housing and development planning, but adopted a streamlined “spot zoning” and fast-tracked development permit approach that caters to the needs of large-scale developers. In the absence of a housing inventory or baseline data regarding the capacity of city neighbourhoods to accommodate large-scale redevelopment, prompt decisions are made with little consideration of the possible consequences.

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A process that involves the gentrification of older neighbourhoods is bound to result in dramatic shifts in the urban landscape, with socio-economic benefits and losses distributed unevenly throughout the terrain. Home-owners benefit while hoteliers see the new unregulated and untaxed alternative accommodation industry encroaching into their traditional tourist market. And tenants face evictions from their rented houses or suites as property owners seek to maximize their profit through the “sharing economy”, i.e. lucrative short-term vacation rentals serving the tourist market. Employers are now facing a critical shortage of rental housing which is needed for those who cannot afford to purchase a home which is well beyond the reach of many working people.

There are significant changes in the quality of life experienced by residents. Many feel the repercussions of a sharp increase in income gaps, a housing tenure trend that now favors owners as opposed to tenants. With the increased value of real estate in a popular tourist destination such as Victoria, property owners are now treating their homes as investment vehicles. Certain elements in the business community are placing a higher value on seasonal influx of tourists staying in short-term vacation rental units and spending more than the local long-term residents who sustain the economy year round.

By reducing parking requirements, removing the restriction on the minimum housing unit size requirement, and increasing the allowable height of residential property complexes, the City is facilitating the growth of upscale multi-storey condo developments resulting in increased density of housing in the core area and the picturesque Inner Harbour neighbourhoods.

By amending its bylaws to encourage the addition of garden and accessory suites in “character” home neighbourhoods as well as new rental condos in the core area and in nearby gentrified upscale neighbourhoods—the City has created fertile ground for investors to capitalize on the growth of the alternative accommodation market.

When the value of a tourist exceeds the value of a local resident, what may result is an exclusive, segregated enclave that serves the needs of visitors while demanding that locals pick up the tab for the costs—increased traffic volume and road maintenance, congestion and accidents, increased environmental impacts in reduced air quality from diesel bus emissions and garbage collection, as well as enhanced safety and security systems.

One only has to wonder whether Victoria's climate and affluent island lifestyle for retirees, refurbished downtown live/work lofts for millennials, and its popular tourist amenities, including the home-sharing economy, has resulted in more than a few unintended consequences.

5.1 The social effects of increased tourism and the home-sharing economy on Victoria

Recent figures released by Statistics Canada indicate that Victoria currently ranks 4th in a list of 33 cities with the highest impaired-driving rates⁵⁶ (both drugs and alcohol) in the country. Victoria's 990 impaired driving incidents in 2015 represent a 12% increase over last year. The capital city of British Columbia now has the unenviable reputation of being the country's leading impaired driving capital in terms of growth of this social behavior. It remains to be seen whether this factor will reflect negatively on the city's pristine image of a healthy and livable place for both residents and tourists alike.

When 59 percent of consumers will not trust "sharing" economy businesses until they are properly regulated, according to a Price Waterhouse Coopers 2015 report, what steps will the City take to protect consumers in the area of short-term vacation rentals?

Is it not up to the members of the "sharing" economy such as Airbnb to demonstrate how they are consistently and effectively contributing to the "greater good" of the economy and what they doing to ensure the well-being of the communities in which they do business? Right now Airbnb and other lodging platforms are benefiting gratis from the Destination Marketing Support which the hotel industry must underwrite in tourist destinations such as Victoria. Are they "taking" more than "giving" to the cities that serve their patrons?

If the "collaborative consumer" economy is here to stay, what is the high-stakes end game for cities where the "home-sharing" phenomenon is threatening to engulf the life of its citizens? Is Victoria being transformed into a post-colonial heritage in indigenous culture theme park for tourists to play in while locals are pushed out beyond its boundaries? What really matters to the citizens of this capital city, and who really counts in the decision-making process of Mayor and Council?

Will Victoria choose to hold the status quo and do nothing to regulate home-sharing enterprises since it might be seen to be restricting property owner rights, curbing real estate development and investment, or stifling "innovative" sharing economy entrepreneurial activities?

Will it partner with online lodging platforms like Airbnb and place few restrictions and regulations on the growth of short-term rental units, stating that bylaw enforcement will be too difficult, time-consuming and costly?

⁵⁶ Statistics Canada, Impaired driving in Canada, 2015, Samuel Perreault, Dec. 14, 2016.

<http://www.statcan.gc.ca/pub/85-002-x/2016001/article/14679-eng.htm>,

Alcohol or drug-impaired driving incidents, by Census Metropolitan Area, 2015 <http://www.statcan.gc.ca/pub/85-002-x/2016001/article/14679/tbl/tbl1-2-eng.htm>. This study also identifies the role of demographics and income: higher use of substances by the 20-35 age group, increased impaired driving rates among higher income quartiles, as well as higher repeat rates of impaired driving offences among 60 plus age group – all of which are present in two of BC's highest impaired driving incident cities: Victoria and Kelowna.

Or, will it choose to prohibit these new business enterprises in order to protect the city's commercial tourism accommodation operators, and majority tenant households facing low-vacancy rates, loss of affordable rental housing stock, or displacement by short-term vacation renters?

5.2 Grappling with the consequences of short-term vacation rentals

The presentation, "Policy Implications for Short-term Vacation Rentals", by a number of tourism representatives and city officials at the annual general meeting of the Union of B.C. Municipalities in September, offers a glimpse of options for consideration.

The thrust of these presentations tended to stress the need to make short-term rentals work for all residents – to be fair to home-owners but also neighbours. Furthermore, that local government should be realistic about what and how they regulate but also how much to charge for compliance services and how to fund enforcement. And lastly, local authorities need to effectively address the key housing challenges such as availability of housing stock and affordability as well as how to curb profiteers and speculators while trying to strike a balance between the needs of tourists and long-term residents.

A summary of their observations and recommendations follows:

- A Short-Term Rental Definition (also known as 'home-sharing' or a vacation rental property) refers to the commercial accommodation of guests in a private residence – a room, condo, secondary suite, or a house – on a temporary basis, usually less than 30 days. Unlike a bed & breakfast the property owner is often not on site and does not operate as a taxed, licensed or regulated business.
- Short-Term Rentals (STR) increase the pressure on local services; increase safety and security risks, do not contribute to the tax base, and place additional demands on affordable housing and affect ability of employers to recruit seasonal or service industry workers.
- Regulation of Short-Term Rentals needs to be warranted, reasonable, balanced and enforceable.
- Short-Term Rental operators should be registered or licensed within each community, and local governments should identify STR operators to compel them to comply with local regulations or prosecute offenders. It is fair to treat STRs as a business and commercial use not as a "landlord".
- Taxes and Booking Data Disclosure: Provincial Sales Tax (PST), Hotel Tax (8%) and Municipal & Regional District Tax – MRDT (3%) should be collected at source by the booking platform and remitted to the province and the lodging/booking platform should also collect and disclose STR data required by the municipality and/or Province to properly monitor and oversee transactions and adherence to local bylaws and legislation. If Airbnb is already collecting taxes in 200 jurisdictions around the world and generating \$110 million in tax revenue for local government, this should be a requirement of its social license to operate in this country and province.

- Short-Term Rentals Registration/Licensing: Studies show 10% of STR operators obtain permit or license (\$200-\$400 annually) to ensure they comply with zoning and building code regulations, and pay their taxes without compliance monitoring while 90% will pay for a permit if there are appropriate penalties for non-compliance (some suggest \$200-\$500 fines per day while others are considerably higher).
- Short-Term Rentals in Relation to Zoning Matters: Allow STRs (guest rooms, guest home or suites) to be located in transient accommodation zones or in residential/mixed use zones.
- Possible Short-Term Rental Regulations: may restrict the number of licenses/permits issued per property, per block, per neighbourhood or per city; consolidates STRs with Bed-and-Breakfasts (B&Bs); specifies ownership and primary residency requirement; mandatory annual inspections; reduction in parking requirements, or must provide sufficient off-street parking as part of accommodation offering; must provide 24/7 local contact person; specifies maximum number of sleeping units (maximum occupants/guests – 6), specifies a license/permit process that also includes provision to revoke approval; assessing whether each regulation is enforceable; use of third party compliance monitoring service (e.g. HostCompliance.com) in absence of qualified staff, database management build-out and maintenance.
- Short-Term Rentals Communications and Civic Engagement Strategy: develop direct contact with short-term rental companies and property owners, property management firms responsible for housekeeping and concierge services for STR owners, real estate industry professionals responsible for sales of homes and condos regarding STR business ventures as income generation options; strata title boards dealing with STR units either by individual owners or corporate investors who operate a number of privately owned units; architects and developers regarding mixed use of condo unit complex with shared/common spaces and amenities (work/live environments, transient accommodation, business office use) to ensure appropriate access, security, parking, and privacy/good neighbor agreements); community engagement through Town hall meetings, conversation cafes with residents and business owners and community organizations.
- Short-Term Rentals – Legal Liability Issues regarding online accommodation/booking companies, legal recourse and options regarding what is an unlawful property; STR complaints process to resolve issues – public disturbance, noise, parking, garbage, etc.; STR non-compliance options: fines and bylaw prosecution.

5.3 Balancing the conflicting interests of home-owners, renters, and hoteliers

The Mayor and Council of the City of Victoria met in June, 2016 to explore the impact of short-term rentals on the limited supply of the housing stock—particularly rental accommodation for working families, modest income individuals, and seniors on fixed income. They did so at a time when, evictions and demolitions of older properties continue unabated causing the displacement of hundreds of tenants. As politicians deliberated, tourists were accommodated in a growing number of alternative hotel suites in popular tourist neighbourhoods like James Bay and Fairfield. Meanwhile hotel operators were finding it difficult to retain service staff in a city where housing costs and rents are soaring in a low-vacancy environment.

Citing “conflict of interest”, neither the Mayor nor the Council Liaison for James Bay (employed in the tourism accommodation sector) entertained any public discussion regarding the matter of short-term rentals and their impact on housing in the City. Meanwhile, the Executive of the James Bay Neighbourhood Association, many of whom live in nearby well-appointed condominium complexes, citing busy agendas for meetings in December 2016 and January 2017, declined two requests by a JBNA member to discuss the issue of short-term vacation rentals in this high rental household community—a community experiencing an unprecedented level of evictions, and a popular Airbnb neighbourhood.

What might be helpful to politicians, citizens, urban professionals might be the development of short-term policy objectives that address the issue of effective housing strategies in affluent residential communities that are experiencing a shortage of affordable housing, especially for long-term tenants who comprise the majority of the city's households.

Such a policy discussion among home-owners, renters, and members of the business community would invite a number of options that could include the following:

- A ‘housing first’ approach to the problem of dealing with both short-term rentals (Airbnb) and vacant units (e.g. View Street rental property with multiple floors of empty, unrented apartments). Establish a priority for providing living accommodation for individuals as opposed to using housing as a “leisure” commodity from which to speculate on and profit from.
- Ensure that traditional residential neighbourhoods are not transformed into preferential tourist areas designed to meet the needs of affluent short-stay vacationers to the detriment of long-term residents, especially those who do not live in secure housing, i.e. tenants.
- Ensure that council does not favor one side of the housing equation, homeowners, to the detriment of long-term renters; respecting the right of home-owners to use their property (condo, garden suite, home) as a short-term vacation rental to supplement income and take advantage of property tax deferrals and other home-owner benefits, while neglecting any meaningful way to safeguard and protect rental housing stock and assist tenants who also need to pay for a roof over their heads.

- Insist on lodging platform accountability and cooperation in terms of booking data for compliance and taxation purposes, consider prohibiting commercial hosts with multiple units that do not live on the premises and for all intents and purposes operate as unlicensed and untaxed business enterprises and, require accommodation platforms to verify registration or licensing of STRs prior to posting new listings, and removing non-registered host property information.⁵⁷
- Ensure that the city does not forego hotel, or transient occupation tax revenue that could be invested in much needed community services for permanent residents.
- Ensure that short-term rentals and home-sharing operators are taxed in the same way as traditional lodging providers to facilitate a level playing field and maintain local service jobs.
- Ensure that homes are not turned into micro-hotels (for rent by the hour, day, week, or month) or become “party houses” that cater to large groups that may often be associated with anti-social behavior, or incur excessive public or private property damage.
- Minimize public safety risks as well as negative consequences of short-term rental use: increased traffic/congestion, noise, parking problems, increased trash removal or city services.
- Maximize the availability of affordable housing options by ensuring that no purpose-built long term rental properties are converted to short-term rentals while tenants are displaced in a limited supply housing market with soaring rents and less than a one percent vacancy rate.
- Establish a housing office with responsibilities for monitoring the number of evictions in the city, regulating conversion of units or building of new suites explicitly for the short-term vacation market; completing a housing inventory for the entire city; hiring a third-party to monitor the STR operators in the city and funding it through a partnership with Tourism Victoria and traditional tourism accommodation operators; charging a user fee on all condo properties and garden suite properties in Victoria, particularly if all strata title properties must now be available as rental units.

A recent VicWest strata council's decision⁵⁸ to approve use of the 177-unit 21-storey Promontory and condo tower at Bayview Place for short-term rentals (even though it contravenes the city's land use bylaw limiting STRs to transient accommodation zones) is disturbing. It would appear the City chooses to

⁵⁷ These refer to a number of recommendations made by Karen Sawatzky in her M.Sc. thesis, “Short-Term Consequences: Investigating the Extent, Nature and Rental Housing Implications of Airbnb Listings in Vancouver”, Urban Studies, Simon Fraser University, September, 2016.

⁵⁸ Mike Kozakowski, “Condo owners nix plan to curb Airbnb rentals in newly built tower”, Citified.ca, March 29, 2016. <http://victoria.citified.ca/news/condo-owners-nix-plan-to-curb-airbnb-rentals-in-newly-built-tower/>

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ignore enforcement of its own bylaws by favoring property owners who argue that any rental restrictions would depress the re-sale value of their homes. Apparently 'turnkey' vacation rental suites are now fetching a 60 percent premium over pre-sale prices in new downtown condos, this is hardly the story that Airbnb provides to justify their alternative lodging enterprise...offering middle-income owners a way to supplement their income, pay off their mortgage and prevent foreclosure.

What happened to the principal that 'housing is first and foremost for homes not operating a business' as the Mayor of Vancouver, reiterated in October 2016 when Council considered staff recommendations made in their report, "Regulating Short-Term Rentals in Vancouver"?

5.4 Recommendations and Reflections

In the absence of housing data in general, and the impact of short-term rentals on housing in particular, the City of Victoria would be wise to consider the following actions:

- Obtain the services of a third-party home-sharing research service such as Host Compliance LLC (who prepared a comprehensive report on this matter for the City of Vancouver in July, 2016 to determine if there needs to be a restriction on any short-term rental of entire housing units (as Berlin, Germany) has done. It may also consider the option of imposing a City tax that applies to all short-term rentals such as licensed hotels, guest houses, bed-and-breakfasts, and other forms of short-term visitor accommodation.
- Identify and monitor for enforcement purposes property owners in the transient accommodation zones (currently designed to regulate use of land for commercial hotels and motels and now being used by condo developers to market the units as vacation and short-term rental revenue properties) located downtown and in residential neighbourhoods like James Bay, as well as spot zoning to permit the operation of licensed Bed-and-Breakfasts and secondary suites in homes and garden cottages operating as unlicensed short-term rentals. The aim of this action is to identify all condo suites as well as secondary suites in houses that are being rented short-term and how many of these suites are available and being used for long-term rentals.

The City may wish to consider the experience of Austin, Texas (a tourist destination city that has adopted a permissive Short-Term Rentals in Principal Residences and Investment Properties Policy. It limits non-owner-occupied STR permits to 3 percent of total housing units in residential areas and 25 percent in commercial areas and places a moratorium on such permits in single/double family residential zones. Other jurisdictions place limits on the total number of guests accommodation per STR property unit, or an annual number of nights that STR may be permitted to operate.

- Identify through the development permit process how many owners are repurposing their residential properties for visitor accommodation, be it commercial apartment owners or private home-owners, and restrict short-term rentals (less than 30 days) to properties which are the principal residence of owners.

- Establish a Short-Term Rentals Complaint Service that is part of the Bylaw Enforcement Department to address the potential for conflict among different user groups in residential buildings and neighbourhoods where short-term rentals are prevalent. These complaints should identify and record multiple STR listings, illegal suites, noise issues, safety concerns related to non-resident access to private areas; damage to common property (including wear and tear on buildings, improper use of building amenities), and increased pressure on shared public resources: on-street parking, utilities, recycling/garbage collection, as well as police and emergency service calls.

Renting out a spare room from time to time or making it available to paying tourists while the owner is on vacation is one thing, but it is quite another to permit turning a housing complex into a revolving-door hotel operated by absentee landlords and corporate entities who do not live in such a property as their principal residence. When these well-appointed mixed-use vertical residential/commercial communities and secondary suites in character homes in neighbourhoods close to downtown tourist attractions, become the most favored form of urban growth in a popular vacation spot, local residents many of whom rent and work in the city are turfed in favor of tourists. Apparently, one of the most visible consequences of the new “sharing” economy means ensuring an exclusive paradise reserved for those of privilege who can afford the perks and premiums offered by the owners and shareholders in the “gig” economy.

The issue of housing equity and potential displacement by the tourism industry, is posing a real threat not only to the well-known and high-profile visitor destination of Venice, but also to our sister city across the pond in Vancouver. While the “sharing” economy promises a “win-win” situation where “your profit is my profit”, others may see it simply as nothing more than a zero-sum game, “your profit is my loss”, especially when the new rules of the game are that he who rules gets to call the shots. And when you're a \$50 billion enterprise operating in practically every country of the world without having to comply with local regulations and tax authorities, and hide your profits in tax havens, the sky is the limit!

“We think we are smart enough to enjoy the full benefits of the modern deal, without paying the price.”⁵⁹ The truth is that few of us recognize the substance of the contract, the invisible strings attached, or the real costs and consequences of playing with daggers, dragons, or dazzling demagogues in digital disguise. When the power of science and technology may increase opportunities for growth, they may inevitably increase the danger.

When the affluent become complacent, tragedy occurs, the poorest and most vulnerable suffer, and the unthinkable occurs. This time it involves not only a threat to the well-being of our cities but more importantly, to the ecological meltdown of our planet. If the economy actually keeps growing forever, it remains to be seen whether the newly crowned King of the World Empire can make a deal that countries, cities and citizens can live with, but more significantly, whether all of humanity is willing to pay the heavy price of living in an environment with few restrictions on individual and corporate

⁵⁹ Yuval Noah Harari, *Home Deus – A Brief History of Tomorrow*, (Toronto: Penguin Random House, 2015), 201.

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freedom and any concern for the notion of the common good is considered an impediment to wealth-making and accumulation.

To navigate in a world of turbulent technological and economic storms, one needs a map and a rudder rather than just an anchor of certainty that does little to guide one's precarious vessel into a safe harbor. The City of Victoria would do well to develop a map to navigate unpredictable waters and a viable strategy to ensure its citizens adapt to change effectively and reach their desired destination.

While it is said that citizens enjoy the freedom to choose a home in which to live, does that mean they also have the right to be free of the problems associated with short-term vacation rentals? More importantly, are City leaders prepared to pay the price of post-modernity and at the same time as honor their commitment in words and deeds—to ensure that all Victorians are “Forever Free”—at liberty to live in a place that is also free from poverty, disease, and social injustice?

Every paradise has its price. It remains to be seen whether today's City leaders and citizens, and those three decades hence, are prepared to assume the undisclosed costs, (that may well exceed their capacity to pay), that come attached to this Nirvana by the sea.

To those who are counting on new technologies, devices and tools such as digital algorithms to tell them the price of everything and make critical choices for them, be careful what you wish for. In this Brave New World, it is likely that notions such as individual “free choice” and human values will no longer have any relevance. The present deregulated and decoupled economy, with its new models of shared access to goods and services is just another way of concentrating wealth in fewer and fewer hands.⁶⁰

An economy based on quantum computers, networked artificial intelligence machines together with robots and 3-D printers among other things will have profound impacts on everyone. Some leading thinkers such as Yuval Harari suggest that the new “best practices”, state-of-the-art processes and cutting-edge technologies in the hands of a few monopolies and other special interests will render most citizens redundant, i.e. surplus labour - no longer useful or valued members of society.⁶¹

Is this what Mayor Helps has in mind when she speaks in glowing terms about her enthusiasm for “moving Victoria into the 21st century as a world leading city?”⁶² Will renters be recognized in the Mayor's Year of Inclusion, Diversity, and Reconciliation in 2017? More importantly, will housing finally become a right of all Canadians on July 1 this year, when the country celebrates its 150th founding anniversary since Confederation?

⁶⁰ Ashifa Kassam, “Top Canada CEOs have already earned more than an average worker's 2017 salary”, The Guardian, January 3, 2017. In 1995, Canada's top 50 CEOs earned 85 times more than the average Canadian income; by 2015 this same cohort made 290 times the average Canadian income of \$49,510. When adjusted for inflation, the average income of the top 100 CEOs in Canada had grown by 99% since 1998, compared to an average Canadian income increase of 9% over the same time period

⁶¹ Yuval Harari, *Homo Deus*, 326, 395.

⁶² Lisa Helps, “A look back at 2016 with Victoria Mayor Lisa helps”, Victoria News Interview, December 30, 2016.