SHORT-TERM RENTALS IN CHARLOTTETOWN

Presented March 9th 2020

Short-term Rental Study on Charlottetown

- **Background:** Staff consulted with David Wachsmuth from McGill University to conduct a comprehensive empirical analysis on Short-term rental (STR) activity in the City.

- **Parameters of the study:** The analysis focused on the following three topics:
  1) A general market overview of the key facts about STRs in Charlottetown, along with their spatial distribution and trends in their seasonal or long-term patterns;
  2) The impacts of STRs on the Charlottetown housing market, in particular with respect to questions of housing availability and affordability; and
  3) The sources of STRs supply in Charlottetown, specifically the division in the market between casual "home sharers" and dedicated "commercial operators". Analysis also focused on the uptake required of STR home share operations if commercial operators were restricted.

STR Key Facts for Charlottetown

- There were 834 active STR listings throughout the year 2019 – a 7.9% increase from 2018
- As of September 1, 2019 there were **635 short-term rentals active in housing units.**
- Approximately**193 housing units** were removed from Charlottetown's long-term housing market which breaks down as follows:
  - 138 housing units during the year; and
  - 55 housing units during the summer high season

STR Key Facts on Seasonality of Listings

- The majority of listings (61.1%) are occurring in the Queens Square and Spring Park Wards which account for 70% of the 2019 host revenues; and
- 70.8% of reserved nights and 75.3% of host revenue in Charlottetown occur between May 1^{st} and September 30^{th} – **highest seasonal variation in the Canadian market**

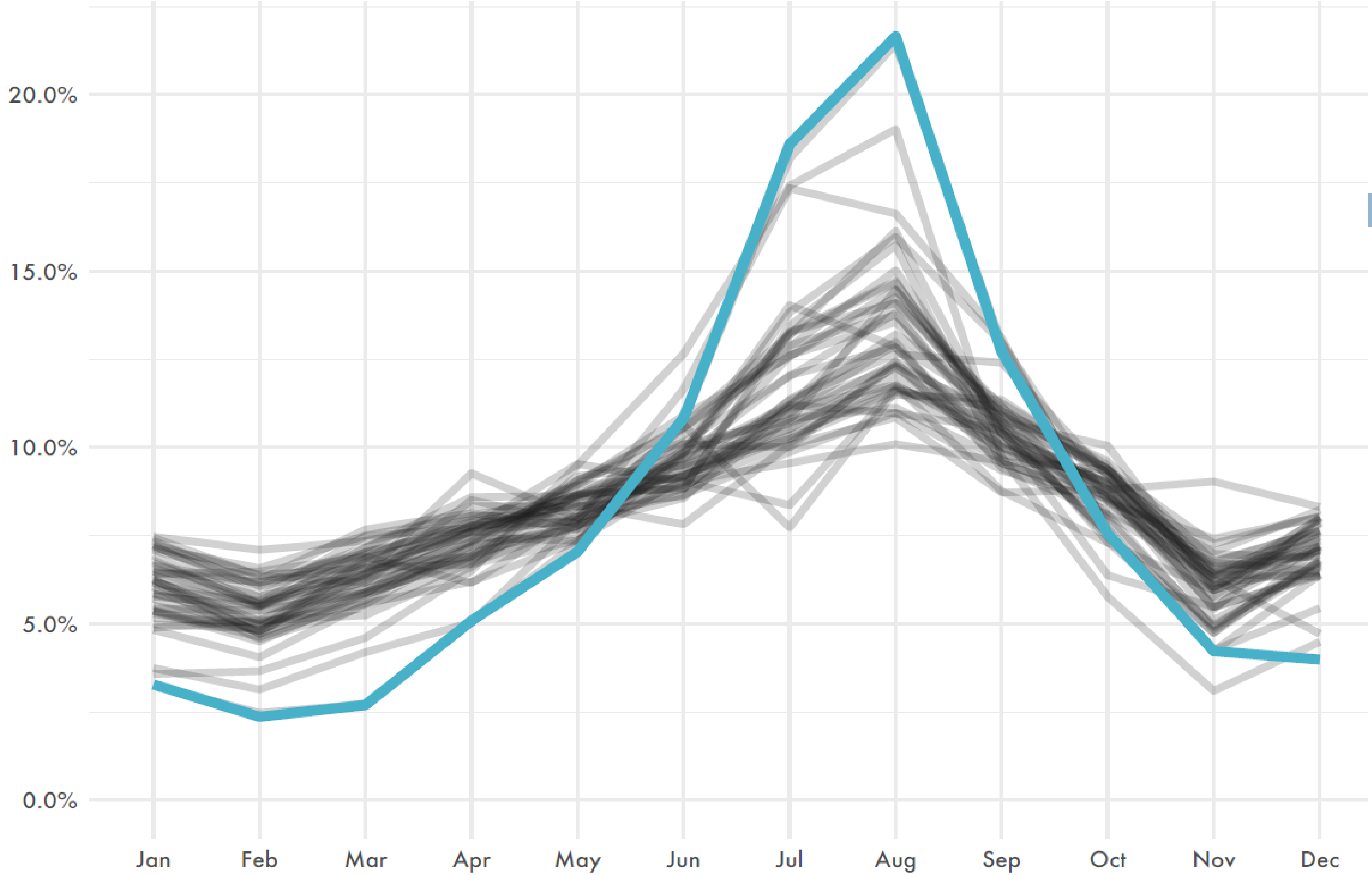


Figure 3: Percentage of growth-adjusted STR reservations occurring each month in Charlottetown (highlighted) and other major Canadian markets

STR Key Facts on Revenue Distribution

- Currently, there are 409 hosts operating listings in the City earning a total of $8.5 million – the average host earning $19,300 with the top host earning in excess of $430,000 (top 1%)

Host percentile	Annual revenue
25th percentile	$9,000
50th percentile (median)	$19,300
75th percentile	$34,000
100th percentile	$439,700

Table 4. Charlottetown STR host earnings

- STR activity is becoming a highly commercialized operation – the top 10% of hosts earned nearly half (47.3%) of all STR revenue

STR Activity in Atlantic Canada

City	Active listings	Listings per 1000 households	Host revenue (2019)	Revenue per listing
Charlottetown	635	12.1	$8.5 million	$13,400
Halifax	2,483	13.2	$34.3 million	$13,800
St. John's	982	18.8	$10.3 million	$10,500
Lunenburg	394	28.1	$5.4 million	$13,700
Moncton	377	10.7	$3.7 million	$9,800

Table 1. STR activity in the top five Atlantic Canada cities

The number of active listings in Charlottetown increased 7.9% from previous year, the pattern of active listings fluctuate considerably over the year (lowest in February and rising steadily through August).

Compared to other Atlantic cities the local STR market is similar in scale on a per capita basis. The STR activity and revenues are approximately as high as the other most profitable markets in Atlantic Canada.

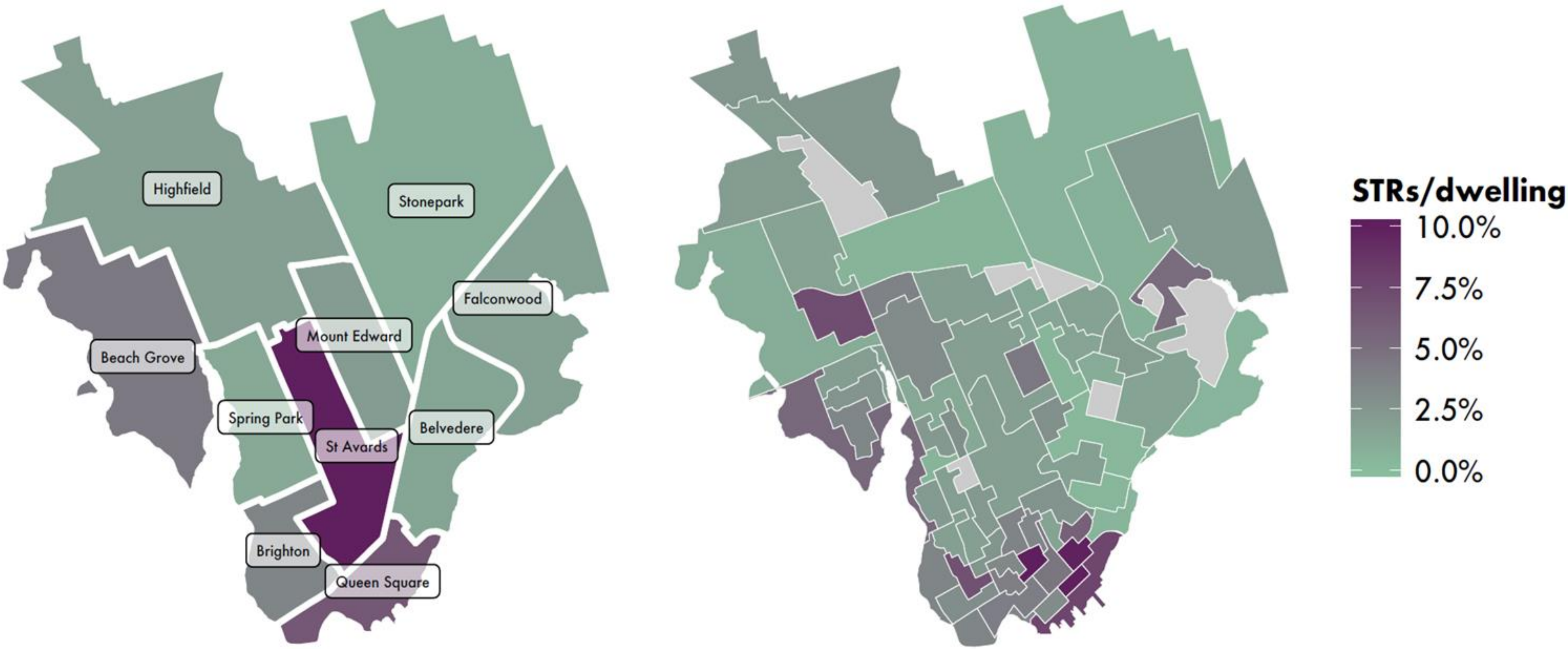
STR Platforms used in Charlottetown

- The total number of STR listings (834) were operated by 409 separate hosts
- Of the 834 STR listings that were active in homes at any point in 2019, approx.:
  - 678 listings (81.3%) were exclusively on Airbnb;
  - 86 listings (10.3%) were exclusively on HomeAway or VRBO; and
  - 70 listings (8.4%) were listed on both Airbnb and one of the other platforms

Compliance Rate with the Province

- STR's are required to register with the Province under the *Tourism Industry Act*
- Of the 635 STR listings in Charlottetown that were active at one point the researchers were only able to identify 265 STR listings that were registered
- Therefore approx. 370 STRs are not registered and non-compliant with the *Tourism Industry Act*

Concentration of STR Activity



Majority of STR listings (61.1%) are occurring in the Queen Square and Spring Park Wards that generate an even higher percentage (70%) of 2019 host revenues.

Prevalence of Listing Type

- Entire-home listings are most likely to generate negative externalities including housing loss and neighbourhood nuisance
- Charlottetown's STR market is dominated by entire-home listings, approx. 76.7% of all active listings and earned 89% ($7.6 million) of all host revenue in 2019

Listing type	Active listings	Annual revenue	% of all listings	% of annual revenue	Revenue per listing
Entire home/apt.	487	$7.6 million	76.7%	89.0%	$15,000
Private room	144	$0.9 million	22.7%	10.9%	$5,800
Shared room	4	$0.0 million	0.6%	0.1	$2,500

Table 3. Listing type prevalence in the City of Charlottetown

Charlottetown Housing Context

- In 2018, the City had the lowest vacancy rate in the country at 0.2%, and while the vacancy rate has increased to **1.2%** it still remains in the **bottom five nation-wide.**
- The most significant and growing share of housing in Charlottetown is **rental housing**. As of October 2019 there were 4,918 primary rental housing units – apartments and townhouses which account for nearly **30% of all housing units.**
- Between 2017 and 2019 – **three in five housing** starts were intended for the **rental market,** which implies a shift toward rental units.

STR's Impact on Charlottetown's Housing Market

- Triple threat has the largest negative impact on housing and are defined as:
  - Full-time
  - Entire homes
  - Multi-listings
- Businesses that have turned home sharing into a large scale profit making opportunity by operating multiple listings at once – termed *ghost hotels* entire buildings converted into STR's
  - Issue in the 500 Lot Area and properties south of Allen Street
- Leads to increasing commercialization and concentration
  - Correlation between rental vacancy rates and proliferation of STR's indicates that neighbourhood's with the most Airbnb activity are seeing their available long-term rental housing significantly constrained by short-term rentals
  - Highest conversion of rental housing to short-term rentals has occurred in medium and high rent neighbourhoods
  - This phenomena is occurring in both the **Queens Square** and **Spring Park Wards**
- The STR Report estimates that **54% of listings** were **operated in the host's principal residence** but only **accounted for 41% of reserved night per year**

Short-term Cities – Housing Facts Regarding STR's

Study identified that the average # of housing units converted to full-time STR's per year → **2017: 55 units, 2018: 124 units, 2019: 138 units**

- An additional **55 housing units** were removed from the long-term housing stock in the summertime of 2019
- During the peak season approx. **193 housing units** are removed from the market, an **8.9% increase in loss** from the previous year

STR's Impact on Availability of Housing Units

- **Availability:** The proliferation of STR's has a negative impact on the vacancy rate, below is a table that reflects this correlation:

Year	Rental vacancy rate	Rental vacancy rate with no dedicated STRs
2017	1.0%	1.7%
2018	0.2%	1.8%
2019	1.2%	2.9%
2020	0.6% (projected)	2.3%
2021	1.1% (projected)	3.1%
2022	2.0% (projected)	4.1%

Table 6: Actual and projected rental vacancy rates

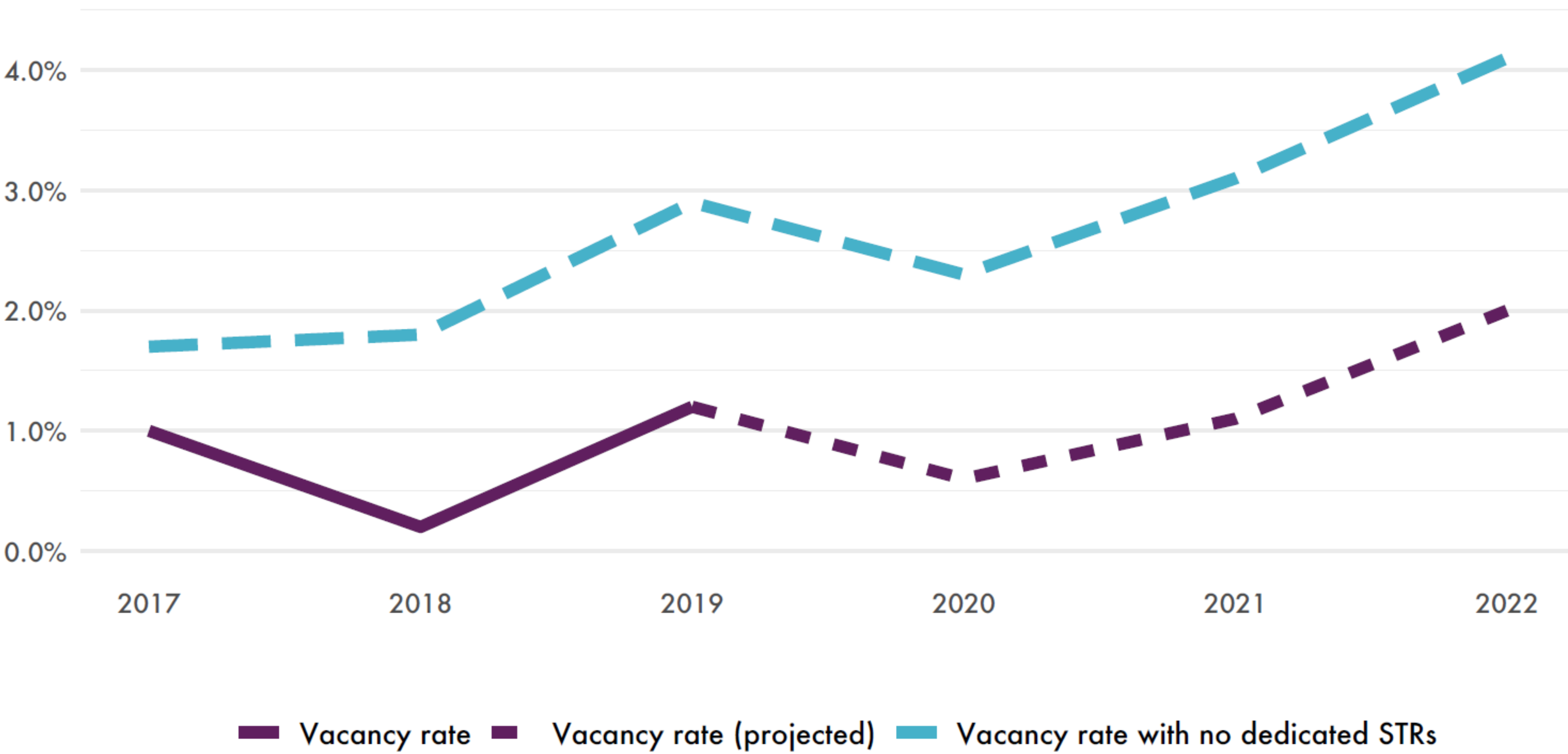


Figure 6: Actual and projected rental vacancy rates in the City of Charlottetown

STR's Impact on the Affordability of Housing Units

- STR's provides homeowners with a new revenue stream which has increased the economic value of residential properties which in turn increase demand for such properties and results in less available housing stock
- **Affordability:** Growth of STR's has contributed to an increase in rental costs of approximately 37.7% (average $292) since 2017*

Home Sharers vs. Commercial Operators

- As of September 2019, there were 635 active STR listings
- The total revenue accrued by Commercial STR's is **$5.1 million or 60% of the total revenues**
- The concentration of Non-principal resident STR's is occurring in the 500 Lot Area

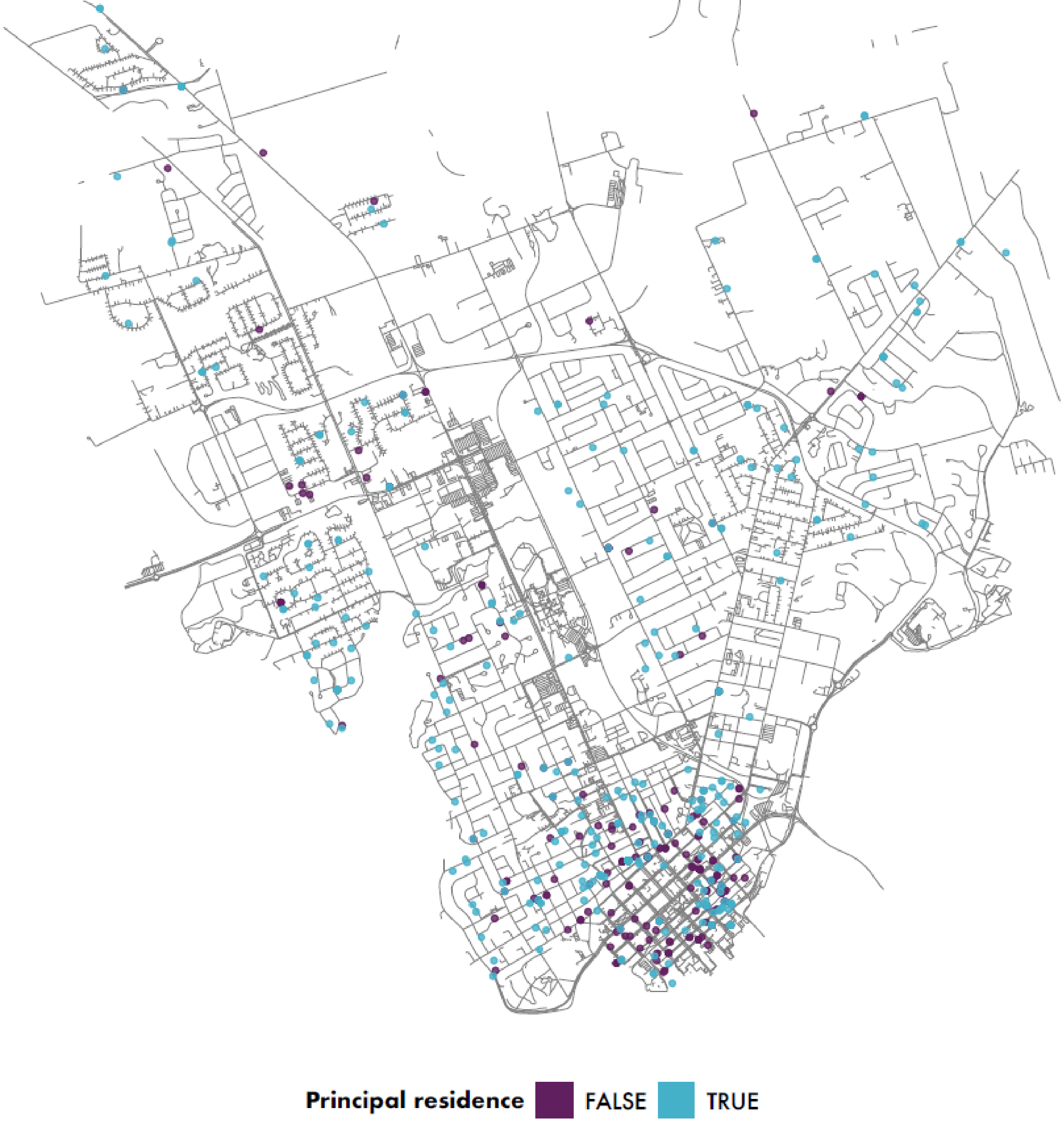


Figure 8. The location of Charlottetown STRs by principal residence status

Regulatory Scenario Modelling

- The following scenarios were modelled based on data extrapolated from both provincial and municipal empirical data sets (i.e. tourist licenses, permit data, STR listings scrapes)
- The vacancy rate impacts were based on the regulatory scenario that was modeled by Prof. Wachsmuth
- This is one of the first empirically informed policy options on STR's that has been performed

Scenario 1

- Permitting STRs in any principal residence except apartments, with no allowance for commercial STRs

Scenario	% of current active listings which would still be allowed	% of 2019 reserved nights which would have been allowed
Scenario 1: Principal residence only, no apartments	47.6%	34.8%

Scenario	Housing units returned to the long-term market (% of total)	Summer units returned to the long-term market (% of total)
Scenario 1: Principal residence only, no apartments	125 (90.3%)	39 (70.9%)

Scenario 2

- Permitting STRs in any principal residence including apartments, with no allowance for commercial STRs

Scenario	% of current active listings which would still be allowed	% of 2019 reserved nights which would have been allowed
Scenario 2: Principal residence only, apartments allowed	53.9%	39.8%

Scenario	Housing units returned to the long-term market (% of total)	Summer units returned to the long-term market (% of total)
Scenario 2: Principal residence only, apartments allowed	122 (88.4%)	36 (65.5%)

Scenario 3

- Permitting STRs in any principal residence except apartments, with allowance for commercial STRs in zones that would permit a hostel and hotel

Scenario	% of current active listings which would still be allowed	% of 2019 reserved nights which would have been allowed
Scenario 3: Principal residence only, no apartments, but commercial zones allowed	52.4%	40.3%

Scenario	Housing units returned to the long-term market (% of total)	Summer units returned to the long-term market (% of total)
Scenario 3: Principal residence only, no apartments, but commercial zones allowed	87 (63.0%)	30 (54.5%)

Scenario 4

- Permitting STRs in any principal residence including apartments, with allowance for commercial STRs in zones that would permit a hostel and hotel

Scenario	% of current active listings which would still be allowed	% of 2019 reserved nights which would have been allowed
Scenario 4: Principal residence, apartments allowed, and commercial zones allowed	57.3%	44.1%

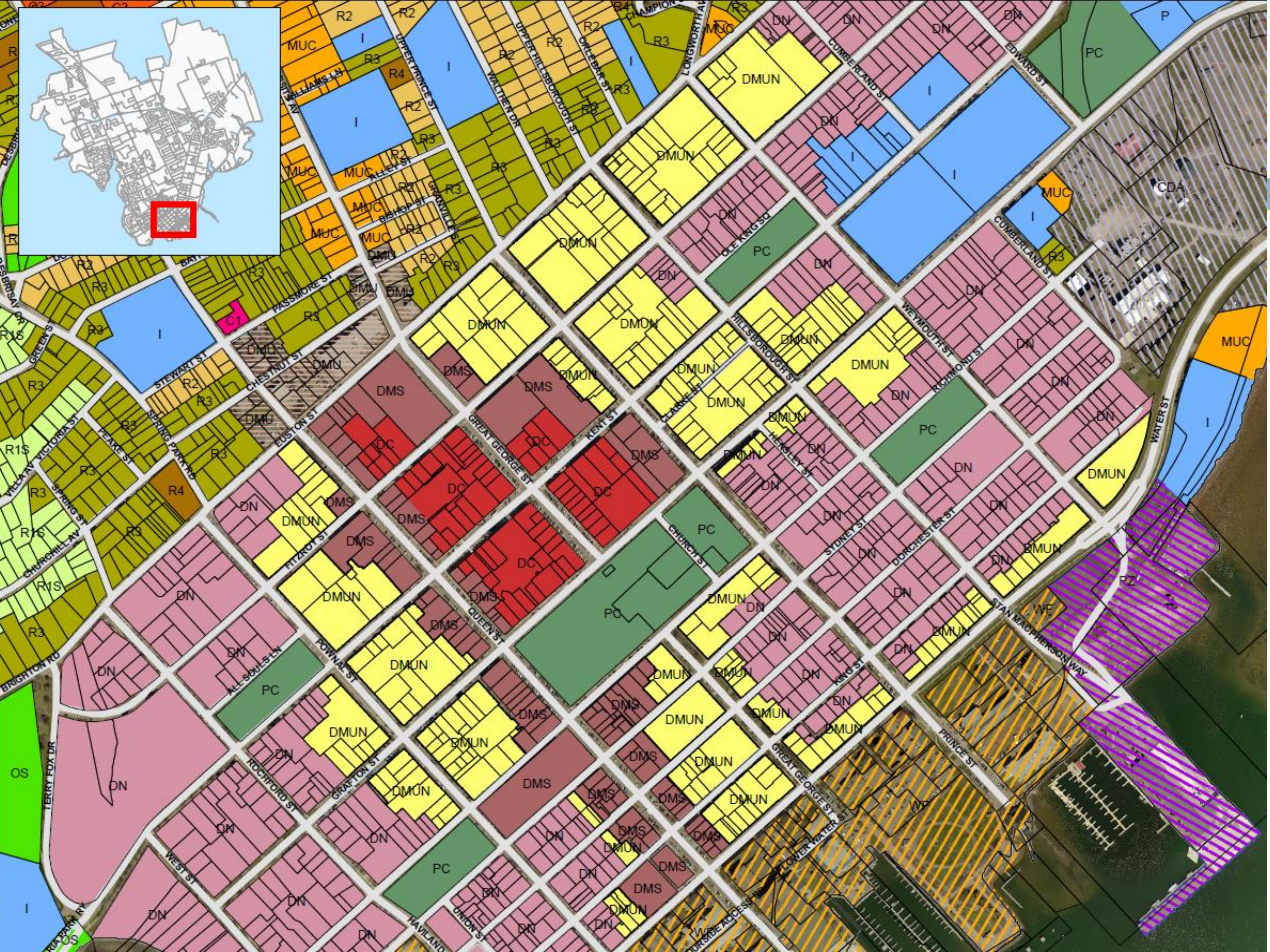
Scenario	Housing units returned to the long-term market (% of total)	Summer units returned to the long-term market (% of total)
Scenario 4: Principal residence, apartments allowed, and commercial zones allowed	86 (62.3%)	28 (50.9%)

Scenario 5

- Principal residence, apartments, commercial STR's permitted in hostel/hotel and the DMUN Zone(s)

Scenario	% of current active listings which would still be allowed	% of 2019 reserved nights which would have been allowed
Scenario 5: Principal residence, apartments allowed, commercial and DMUN zones allowed	60.9%	49.2%

Scenario	Housing units returned to the long-term market (% of total)	Summer units returned to the long-term market (% of total)
Scenario 5: Principal residence, apartments allowed, commercial and DMUN ones allowed	69 (50.0%)	17 (30.9%)


UPPER PRINCE ST
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CUMBERLAND ST
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BISHOP ST
GRANVILLE ST
PASSMORE ST
STEWART ST
CHESTNUT ST
EUSTON ST
SPRING PARK RD
PEAKE ST
VICTORIA ST
SPRING ST
CHURCHILL AV
GREEN ST
BRIGHTON RD
OLE KING SQ
HILLSBOROUGH ST
WEYMOUTH ST
RICHMOND ST
WATER ST
GREAT GEORGE ST
KENT ST
CLARKE ST
HENSLEY ST
CHURCH ST
SYDNEY ST
DORCHESTER ST
FITZROY ST
QUEEN ST
POWNAL ST
ALL SOULS LN
ROCHFORD ST
GRAFTON ST
KING ST
STAN MACPHERSON WAY
PRINCE ST
LOWER WATER ST
TERRY FOX DR
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Scenario Housing Vacancy Rate Impacts

Year	Rental vacancy rate (baseline)	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
2017	1.0%	-	-	-	-	-
2018	0.2%	-	-	-	-	-
2019	1.2%	-	-	-	-	-
2020	0.6% (projected)	2.2%	2.1%	1.7%	1.7%	1.4%
2021	1.1% (projected)	2.9%	2.8%	2.4%	2.3%	2.1%
2022	2.0% (projected)	3.9%	3.8%	3.3%	3.3%	3.0%

Table 10: Actual and projected rental vacancy rates under five regulatory scenarios

Subject to variation based on <u>external events </u>(immigration rates, housing market, relocation of STR activity, continue trend of building activity etc.) and <u>100% compliance with regulatory framework</u>

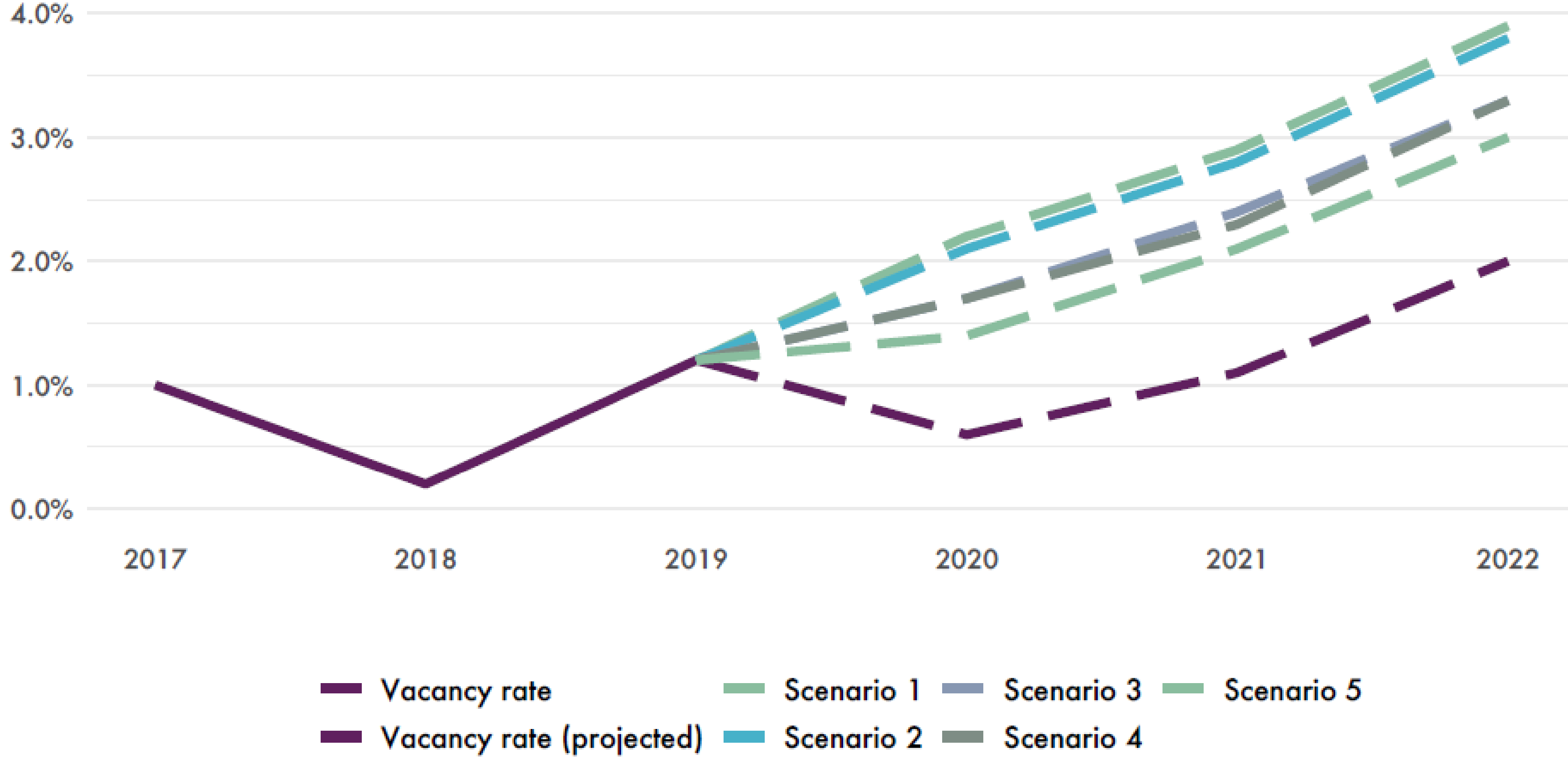

Figure 11: Actual and projected rental vacancy rates under five regulatory scenarios

Scenario Tourism Impacts

- Based on the scenarios presented the reduction in the number of STR's has an impact to accommodations

Scenario	Annual shortfall of reserved nights	Remaining listings	Avg. nights booked per listing	Avg. increase in nights booked required to fill shortfall (% increase)	New listings required to fill shortfall (% increase)
Scenario 1	36,400	438	46.2	83.2 (180.1%)	788 (180.1%)
Scenario 2	33,500	497	46.6	67.4 (144.6%)	719 (144.6%)
Scenario 3	33,500	469	49.4	71.4 (144.5%)	678 (144.5%)
Scenario 4	31,200	519	49.1	60.1 (122.4%)	635 (122.4%)
Scenario 5	28,400	542	52.1	52.4 (100.6%)	545 (100.6%)

Table 11: Actual and projected rental vacancy rates under five regulatory scenarios

Scenario Tourism Impacts based on Compliance Rate

	100 % compliance rate		75% compliance rate		50% compliance rate	
Scenario	**Minimal additional listings**	**Minimal additional nights booked**	**Minimal additional listings**	**Minimal additional nights booked**	**Minimal additional listings**	**Minimal additional nights booked**
Scenario 1	306	30.0	224	22.8	144	15.6
Scenario 2	267	27.6	196	21.0	128	14.1
Scenario 3	275	26.8	200	20.5	129	13.9
Scenario 4	244	25.2	179	19.1	117	12.9
Scenario 5	219	22.4	160	17.1	104	11.5

Table 12: The most efficient combinations of additional nights booked and additional listings required to make up STR supply shortfall under five regulatory scenarios at 100%, 75% and 50% compliance rates

Guiding Principles

- Protect long-term housing rental supply;
- Ensure Health and Safety;
- Encourage neighbourhood fit;
- Promote tax and regulation equity;
- Support tourism industry;
- Encourage compliance; and
- Enable supplemental income and property rights