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CANADA

Growing Pains: Short-term rentals are prompting concerns around the world

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READ THE CONVERSATION

Growing Pains

This is the first in a series of in-depth stories about how tourism is changing worldwide and how some destinations are dealing with concerns about overtourism, unprecedented growth in short-term rentals, skyrocketing housing prices and, ultimately, how these factors can affect communities.

The proliferation of short-term rentals is not a phenomenon limited to Niagara-on-the-Lake, but is a worldwide issue sparking debate and action in places as diverse as Venice, Barcelona and Ontario's cottage country.

"Venice, in order to survive, must preserve a residential urban identity that is not linked only to mass tourism, which wears it out, consumes and progressively empties its vital soul. You have to aim for tourism of quality, attentive and respectful of a city's fragility, as well as accompanied by a dimension of balanced and sustainable economy."

So bookends the decalogo, or "Ten Commandments," a document jointly published by the Italian cities of Venice and Florence. The decalogo was released by the cities earlier this year as a plea to Italy's federal government to help the cities combat the explosive growth of the short-term rental industry in the last decade.

Large cities like Barcelona, Paris, Venice, New York and Toronto, as well as small Ontario municipalities like Seguin, Oro-Medonte, Fort Erie and Lincoln are dealing with the rise of the short-term rental industry and what Venetian officials referred to as the emptying of their "vital souls."

Municipalities like Seguin, Oro-Medonte, and even Wasaga have implemented a total ban on short-term rentals operating on residential properties, insisting they be deemed commercial businesses and acquire the appropriate zoning.

More municipalities, such as Prince Edward County, have implemented a municipal accommodations tax, which Niagara-on-the-Lake passed at the end of August.

Unlike NOTL, many municipalities charge the tax on all types of short-term accommodations, whereas the plan passed by NOTL council gives a pass to any rental operator who has fewer than five rooms available. That means only 12 of the town's 255 legal, licensed short-term rentals will have to collect the tax.

A 2019 analysis by the independent Economic Policy Institute in the United States argues the cost of the expansion of short-term rentals and Airbnbs outweighs the benefits for local jurisdictions and long-term residents.

Among the Institute's findings is that short-term rentals, by gobbling up possible properties for long-term renters or owners, raise the cost of housing for potential long-term residents.

The study quotes research done by economists Keren Horn and Mark Merante in Boston which determined that for every 12 new Airbnb units in a census tract, rental costs rose by 0.4 per cent. Another study found that a 10 per cent increase in Airbnb listings resulted in a 0.76 per cent increase in housing prices.

A quick count on Airbnb this fall found roughly 150 rentals advertised just in Old Town, north of the community centre. Based on the research by Horn and Merrante, just those 150 Airbnbs could equal a 5 per cent increase in long-term rental costs for prospective NOTL residents due to a lack of available housing.

Another study from 2017, “The Effect of Home-Sharing on House Prices and Rents,” by economists Kyle Barron, Edward Kung and David Prosperio, found an annual increase of \$1,800 in housing prices caused by short-term rentals, accounting for one-seventh of actual price growth per year.

The Economic Policy Institute’s analysis disputes the notion that increased housing prices are worth it because of the decreased cost short-term rentals offer in an area – which could be argued will draw more tourists.

This was a point made by members of NOTL’s tourism industry when council approved the municipal accommodations tax.

Short-term rental accommodations accounted for roughly 1 per cent of a family’s yearly budget in 2016, whereas housing averaged 15.8 per cent, according to the study.

“Housing costs eat up far more of the average household’s budget and rising housing prices mean that long-term housing has grown more as a share of family budgets than short-term travel accommodations,” writes Josh Bivens, the institute’s director of research.

“This seems like a bad trade-off. This rising cost of housing has become a major economic stress for many American households. Anything that threatens to exacerbate this stress should face close scrutiny.”

Compounding this are the results of a survey conducted with 800 Airbnb users. The survey found that only two per cent of travellers would not have gone on their trip if they had to use more traditional forms of accommodation, according to the institute.

These rising housing costs in historic centres, such as NOTL, could drive away potential long-term homeowners – like young families – vital to the long-term health of a municipality.

It’s a problem Venice knows all too well.

“The economic exploitation of real estate for tourism purposes helps to keep residents away from the Ancient City and is a phenomenon that must absolutely be contained,” said Simone Venturini, a Venice city councillor and deputy mayor for tourism.

Venice has published calls for social housing accommodations in its historic centre to draw young families. The city has also begun giving grants to young residents to move to the city centre and open up a local shop, “thus guaranteeing services that go beyond the tourism industry,” Venturini said in an email to The Lake Report.

Closer to home, in Oro-Medonte, just north of Barrie, councillors voted to ban short-term rentals on residential properties last year.

“There are certain areas where you cannot have commercial operations and we are deeming short-term rentals as being a commercial activity,” Oro-Medonte Mayor Harry Hughes said in an interview.

The rule applies across Oro-Medonte’s short-term rental industry, as even bed and breakfasts need to get rezoned from a residential property in order to operate.

Hughes said the main source of consternation for the town has been unhosted rentals, where no one lives most of the year and which get rented out to people who have no sense of affection for the community they will be staying in.

“The term that is being used is ‘ghost hotels,’ ” Hughes said.

Unlike a traditional hotel, which has management and staff oversight, ghost hotels are truly transient properties where people with no attachment to the municipality come to party for a weekend and then take off, he said.

Another problem with such rentals is people are using all the amenities of a home, meaning they can bring their own groceries and cook, reducing potential spending on local amenities, Hughes said.

“They don’t engage, they don’t go anywhere else in the municipality to buy things, they don’t pay any rent – they don’t do anything. They’re just there.”

Hughes said backlash regarding the municipality’s decision has been mostly limited to online complaining.

“We’ve had more of a situation where people on social media are trying to use this as an alternative to discredit (what we are doing),” he said.

Hughes said a unique combination of factors has helped the municipality reduce the problem of late.

One of those was skyrocketing property values due to COVID.

Since the rental bylaw is now in effect, anybody who buys a residential property in the municipality cannot operate a short-term rental. Thanks to rising property values, people who had bought properties for the sole purpose of running them as commercial businesses saw they could make even more by reselling the properties to actual long-term residents, Hughes said.

But that reselling would not have happened if not for the ban on short-term rentals on residential properties.

Seguin Township, south of Parry Sound, also has a long-standing ban on short-term rentals on residential properties because it classifies them as commercial activities. The bylaw has been in effect for decades but the town never had any issues with rentals until recently.

Short-term rental accommodations “are commercial. There is no question about that,” Mayor Ann MacDiarmid said.

MacDiarmid took issue with arguments that the current state of rentals is no different than it was two decades ago and that municipalities are overreacting.

“Proponents will say putting (a property) on Airbnb is the same as 20 years ago when you would put a piece of paper on the bulletin board at the general store,” she said.

“That piece of paper didn’t have international reach.”

MacDiarmid said short-term rentals on residential properties were unfair to enterprises such as hotels and resorts.

“It’s not fair to the people who are zoned commercial, who do pay commercial taxes and have the septic and everything else in place to be a commercial enterprise,” she said.

“Whatever we do to regulate has to be on a cost-recovery basis because we don’t want the non-renting taxpayer paying for the regulation of the rental industry.”

MacDiarmid said the exorbitant prices some short-term rentals charge while avoiding commercial taxes hurts the municipality.

“There are cottages on Lake Rousseau and Joseph that rent for \$20,000 to \$30,000 a week. A couple of \$100 fines mean nothing to them,” she said.

“There’s somewhere in the middle that there’s some money for the township to regulate them.”

And that could be in a number of ways, from having the rentals pay commercial taxes, using a municipal accommodation tax or implementing a licensing regime. NOTL has already improved the municipal accommodations tax and has a licensing system.

But licences do nothing to combat some of the other issues that arise from short-term rentals, such as the potential hollowing out of neighbourhoods and communities, a topic that will be explored in the next series.

Regarding higher property prices, MacDiarmid said Seguin had seen a negative yet different result from the increase in short-term rentals than other places have.

On some of the smaller lakes in the area, more than 50 per cent of properties are being used as short-term rentals and that has led to a drop in neighbouring property values.

“Nobody wants (those properties). A lot of the realtors won’t even touch them,” she said.

“I can tell you that people on some of those smaller lakes are really hurting.”

Next: The argument over the hollowing out of communities and economic fallout concerns.

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