ECONOMIC VIEWPOINT

Could Restricting Short-Term Rentals Help Alleviate Canada's Housing Crisis?

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Highlights

- Over the past year, Canada has had over 235,000 listings on popular short-term rental (STR) platforms. That's equivalent to roughly 1.4% of Canada's housing stock or 4.9% of its long-term rentals. At the same time, would-be renters across the country are struggling to find an apartment as the vacancy rate stands at just 1.9% and skyrocketing asking rents further erode affordability.
- Studies overwhelmingly show that neighbourhoods with a high prevalence of STR listings have faster-rising rents, lower vacancy rates for long-term rentals, and higher home sale prices.
- To help alleviate Canada's housing crisis, governments should place some restrictions on commercial non-principal residence STRs. This would increase the number of owner-occupied units and units with long-term tenants. Moreover, policies should be widely communicated and strictly enforced with penalties to ensure high rates of compliance. And finally, STR hosting platforms should be held accountable and required to disclose their data.

In recent years, the growing popularity of online STR[1] platforms has disrupted the traditional housing market. It has significantly impacted both housing affordability and availability. The shift away from long-term rental (LTR) agreements removes units from the rental housing stock. This puts upward pressure on the rents paid by local residents by constraining supply. In addition, investors[2] looking to purchase homes for use as full-time STRs are in direct competition with would-be owner occupants. These impacts have commonly been dubbed the "Airbnb effect."

Our recent examination of global housing success stories looked at a broad suite of public policy options to boost housing supply, including regulating STRs. Governments at all levels in Canada and abroad have implemented a variety of policies with mixed success in alleviating the impact of STRs.

Short-Term Rentals Are More Profitable

Recent AirDNA data showed that over the past 12 months Canada had 235,800 unique active STR listings on Airbnb and/or Vrbo, the two largest hosting platforms. This is equivalent to roughly 1.4% of Canada's housing stock or 4.9% of its long-term rentals.

Investors stand to earn significantly higher revenues by listing their units as short-term rather than long-term rentals (graph 1 on page 2). AirDNA tracks average annual revenue from short-term rental. This figure includes owner-occupied homes and

[1] While the definition varies slightly by jurisdiction, an STR is typically defined as a rental of less than 28 to 31 days.
[2] The STR market encompasses both home sharing and commercial investment. Examples of home sharing include principal residents renting out a spare bedroom, listing their entire home for rent while they travel, or renting out a vacation home. Meanwhile commercial investors purchase properties not to use as their principal residence, but rather to list on a full-time basis. Investors may own multiple properties. Only commercial STR investment removes housing units from the LTR market.

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
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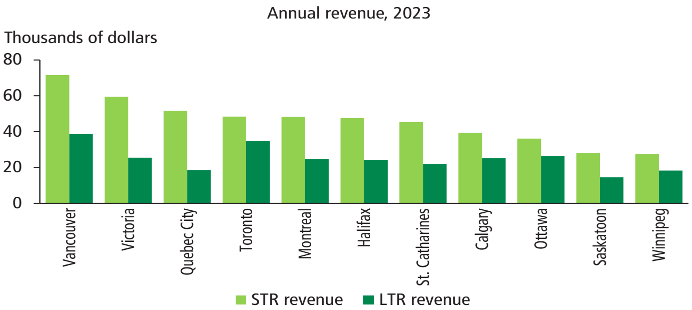
GRAPH 1
Investors Typically Earn More on Short-Term Rentals



STR: short-term rental; LTR: long-term rental
Sources: Rental.ca, Urbanation, AirDNA and Desjardins Economic Studies

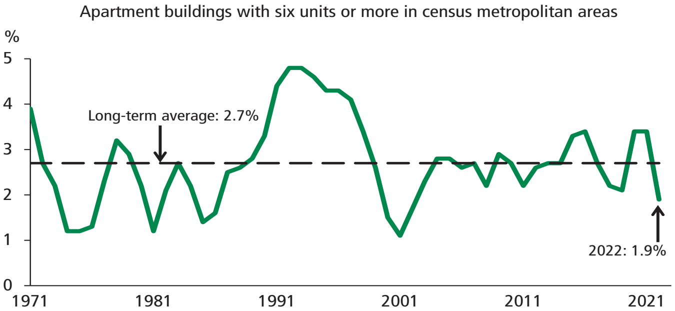
full-time investment properties. Long-term rental revenue is based on the most recent average asking rent for apartment and condo listings. The reported LTR revenue is an overstatement, however. This is because landlords will often earn less than the current average asking rent, as many units with long-term tenancies are subject to rent control. While the figures may not be directly comparable, there's a sizeable gap between STR and LTR revenue regardless of the size and tourist appeal of the municipality.

Many STR markets are dominated by commercial for-profit operators with multiple listings. For example, in BC, 10% of hosts earned almost 50% of all revenue, with the top 1% of hosts earning more than 20% of total STR revenue (Wachsmuth, 2023).

Renters Are Struggling

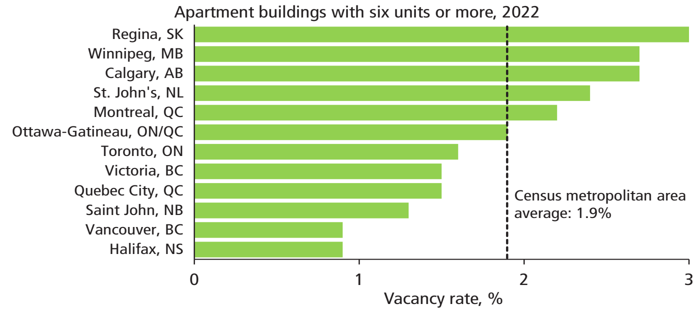
Meanwhile would-be renters are struggling to find an apartment. In 2022, the national rental vacancy rate was just 1.9%—significantly below the long-term average of 2.7% (graph 2) and what is considered the balanced market rate of 3%. And this isn't just a Toronto and Vancouver story. Cities across the country are facing similar challenges (graph 3). When the vacancy

GRAPH 2
The Rental Vacancy Rate Is below the Long-Term Average



Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

GRAPH 3
Renters across Canada Are Struggling with Low Rental Vacancy Rates

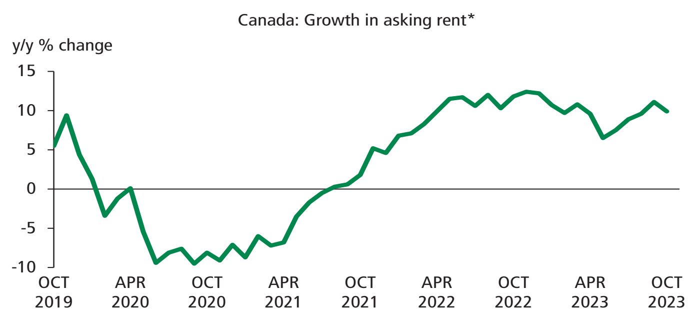


Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

rate is above 3%, inflation-adjusted rents tend to flatten and go negative; when it drops below 3%, rents tend to climb (Jens von Bergmann, 2018). In 2022, 30 of the 33 census metropolitan areas (CMAs) tracked by the Canada Mortgage and Housing Corporation (CMHC) had a vacancy rate below 3%.

As noted in our recent residential real estate report, Canada's surging population has driven demand for all forms of housing. This has put pressure on new tenants, as asking rents have skyrocketed over the past two years (graph 4).

GRAPH 4
Demand Has Been Pushing Asking Rents to New Highs



*Average asking rent for all unit types
Sources: Rentals.ca, Urbanation and Desjardins Economic Studies

Home Sales and Prices Are Starting to Falter, but Remain Unaffordable

As we discussed in a recent housing note, home sales in Canada have fallen for the past three months following the Bank of Canada's series of interest rate hikes (table 1 on page 3).

But while Toronto is currently in buyer's market territory, our recent analysis suggests that even a severe recession won't make housing affordable there. And we anticipate that when the Bank

TABLE 1
Home Sales and Prices Fell in October 2023

REGION	EXISTING HOME SALES (Y/Y % GROWTH)	AVG. EXISTING HOME SALE PRICE (Y/Y % GROWTH)
Newfoundland and Labrador	-16.7	0.4
Prince Edward Island	-6.6	-1.1
Nova Scotia	-19.7	1.6
New Brunswick	-16.1	2.0
Quebec	-14.6	-0.6
Ontario	-14.1	-6.4
Toronto	-14.6	-5.1
Ottawa	-12.6	-5.2
Hamilton-Burlington	-11.6	-9.4
Manitoba	-12.2	-3.9
Winnipeg	-14.1	-3.9
Saskatchewan	-6.2	-1.0
Alberta	-13.1	0.4
Calgary	-13.3	3.3
Edmonton	-13.4	-4.1
British Columbia	-11.5	-2.8
Vancouver	-12.7	0.2
Victoria	-10.3	-3.2

Sources: Canadian Real Estate Association and Desjardins Economic Studies

starts to dial back rates, the housing market will pick up steam again.

Have STRs Contributed to Canada's Housing Affordability Crisis?

A significant amount of research has gone into determining the impacts of STRs on local housing markets.

Lee (2016) found that in Los Angeles, rents in neighbourhoods with high concentrations of STR listings increased 33% faster than rents citywide, even just a few years after Airbnb launched.

The City of New York (2018) reported that the eight neighbourhoods with the highest concentration of Airbnb listings experienced higher rent increases between 2009 and 2016. Rental rates in those neighbourhoods rose by 1.58% for every 1% share of all residential units listed on Airbnb.

Barron, Kung and Proserpio (2020) found that in the US, a 1% increase in Airbnb listings led to a 0.018% rise in rents and a 0.026% bump in home prices for zip codes with median owner occupancy rates. This was equivalent to annual increases of US$9 in monthly rent and US$1,800 in home prices at the median. Moreover, the total supply of housing was not impacted by the entry of Airbnb—implying that commercial STR investment did not drive additional construction. Instead, an increase in listings in the STR market meant a decrease in the supply of long-term rental units.

Cox and Haar (2020) noted that in Barcelona, Airbnb drove up rents by 7% and property prices by 19% even after controlling for gentrification. Commercial investors accounted for an estimated 75% of listings.

Back here at home, a Conference Board of Canada (2023) study analyzing the impact of STRs across 330 neighbourhoods in 19 Canadian cities found that there was a correlation between Airbnb activity and higher rents. A one percentage point increase in the share of Airbnbs was associated with a 2.3% increase in rents. While their methodology could not demonstrate a meaningful causal link between STRs and average rents, they found that the number of commercial STR units decreased by almost 50% after principal residence restrictions were introduced.

Wachsmuth (2023) found that STRs removed almost 17,000 housing units from BC's long-term housing stock. Furthermore, a one percentage point increase in dedicated STR units in a neighbourhood resulted in an average rent increase of $49 per month.

Turning to the impact on market housing, Franco and Santos (2021) found that on average, a one percentage point increase in the share of Airbnb listings resulted in a 3.7% increase in home prices in Portugal. In contrast, a recent literature survey (AirDNA, no date) found a small effect from STR on housing prices, often localized in tourist areas, and most likely to affect up-market assets and renters.

In summary, research has established that there is a relationship between the prevalence of STRs in a community and higher rents for LTRs. The impact on home prices is less well established, but the data points in the same direction. That means STRs are likely contributing to the erosion of housing affordability in Canada and around the world.

What Public Policies Could Help Regulate STRs?

More and more cities—and now provinces—are implementing policies designed to regulate STRs in an effort to mitigate their impact on housing affordability.

Licensing, Permitting or Registration Requirements

Requiring owners to have a licence or registration is among the most common restriction cities have placed on STRs.

Toronto requires all hosts renting for fewer than 28 days to obtain a license from the city. However, compliance may be an issue. As of October 2023, the city's website listed just under 8,000 registered STR properties, whereas AirDNA reported over 13,000 active listings with a minimum stay of fewer than 30 days.

Other cities like Ottawa require permits to ensure that social housing units aren't used as STRs. And in some jurisdictions, condo boards are allowed to ban STRs in their buildings.

Limit on the Number of Days

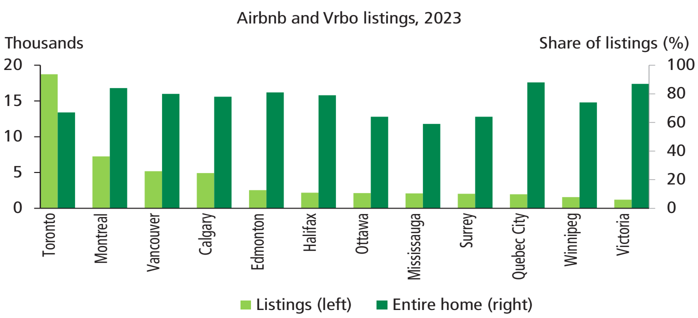
Toronto restricts STRs to a maximum of 180 nights per year for an entire home. However, owners may rent out up to 3 bedrooms in their own principal residence for an unlimited number of nights.

Primary Residences Only

Policies that limit STR listings to primary residences—in some cases with an on-site host—could have a significant impact on the housing market. Vancouver's principal residence policy has returned an estimated 800 housing units to the long-term rental market (Wachsmuth, 2023).

Whole-home rentals in 12 Canadian markets account for 38,000 listings (graph 5). Some of these listings might simply be owner-occupiers renting out their homes while they're away temporarily. But since average annual STR revenues are high in each of these cities, most listings are likely full-time STRs. Combs, Kerrigan and Wachsmuth (2020) estimated that non-principal residence listings accounted for between 17,000 and 43,000 Canadian homes. Given the pace of STR growth over the past few years, the current number is likely to be significantly higher. A recent federal government announcement estimated that 30,000 housing units could be returned to the long-term market in Vancouver, Toronto and Montreal through restrictions on STRs.

GRAPH 5
Limiting STR Listings Could Quickly Increase the Housing Stock



STR: short-term rental
Sources: AirDNA and Desjardins Economic Studies

Zoning Restrictions

The popular tourist destination of Whistler BC restricts STRs to properties zoned for tourist or temporary accommodation. Homes with residential zoning may not be marketed as available to tourists for any length of time. The penalty for illegal nightly rental or simply advertising is up to $1,000 per day.

In Halifax, new regulations that took effect in September 2023 restrict non-primary residence STRs to commercial zones. Homeowners in residential zones can list only their primary residence as an STR.

Hotel Taxes and Sales Taxes

Ottawa, Toronto and many other municipalities in Ontario require all STR operators to collect and remit a Municipal Accommodation Tax on all stays shorter than a month. (The number of days varies slightly by city.) Quebec, BC and Alberta collect lodging taxes or tourism levies at the provincial level.

In its 2020 Fall Economic Statement, the Government of Canada announced measures to apply GST/HST to digital platform operators, including operators of online accommodation platforms. Sales tax applies to all short-term rental bookings of 30 nights or less including cleaning fees. Provinces with their own sales tax also collect PST/QST on STRs. Airbnb and Vrbo collect and remit sales and accommodation taxes on behalf of hosts without their own GST registration, which increases compliance.

While hotel and sales taxes may marginally shift the balance between demand for and supply of STRs by slightly increasing the cost to vacationers, it's unlikely to have a significant impact on the housing market. Perversely, as a source of government revenue it could incentivize governments to have more STRs. There would need to be a sufficiently large surtax on STR income to eliminate the revenue advantage of STRs in order to encourage commercial investors to list their properties as LTRs.

Income Taxes

In its latest Fall Economic Statement, the Government of Canada implemented measures to crack down on illegal STRs. Expenses incurred to generate STR income will no longer be an eligible income tax deduction for properties in areas where STRs are prohibited or for properties not in compliance with licensing, permitting or registration requirements. The federal government also committed $50M over three years to help municipalities crack down on non-compliant STRs. While every little bit counts, we're skeptical that these amounts will be enough to level the playing field between STRs and LTRs.

Platform Accountability and Data Disclosure

The BC provincial government passed the Short-Term Rental Accommodations Act in October 2023 in an effort to return an estimated 16,000 commercial STRs to the LTR market. The act includes platform accountability: if a listing doesn't include a valid business license, the STR platform must remove the listing at the request of the local government. Moreover, platforms are required to share listing information with the province, which may then share it with local governments.

Quebec enacted the Tourist Accommodation Act in 2021. Owners of units to be rented for 31 days or less must request a notice of compliance from their local municipality and then apply for a registration number. Platforms are required to have proof of permits and remove listings without permits from the system.

Cox and Haar (2020) caution that platforms may not be as responsive or accountable as governments would like. They noted that Airbnb withdrew the ability to enforce a 60-day cap in Amsterdam, allowed hosts to create multiple listings for the same property to circumvent a 120-day cap in Paris, provided data for Barcelona but up to 70% of the addresses were missing or incorrect, refused to remove thousands of unauthorized apartment listings during a 2-year ban in Berlin, and failed to remove social housing listings in Vienna.

Should STRs Effectively Be Banned? Evidence from around the World

Ontario

The Ontario government banned almost all short-term rentals during the early months of the pandemic. A Zoocasa report found that in June 2020, there were 36% more condos for sale in Toronto than the same month one year before—but sale listings were up 108% in 10 buildings known to be popular for STRs. Similarly, long-term condo rentals were up 83% city-wide but 257% in these 10 buildings. This suggests that when STR listings are restricted, some homes are likely to be returned to the long-term housing stock.

New York City

New York City adopted a Short-Term Rental Registration Law that went into effect in September 2023. The law is a de facto ban on STRs other than shared living spaces. While the long-term effects have yet to be felt, there are some notable changes already. According to AirDNA, the number of STR listings began to drop off as soon as the policy change was announced last year, and continued to fall from 31,000 in January of this year to 25,000 at the end of October. By late September, there were only 2,300 listings with a minimum stay of less than 30 nights, which includes locations zoned for transient lodging and therefore not required to be licensed as STRs. At that point 94% of listings were for 30 nights or more. CoStar reported that in September, Manhattan's LTR vacancy rate surpassed 3% for the first time in more than 3 years, while the median rent fell by 1.3% or almost US$60 per month.

Berlin

Berlin introduced a law in 2016 that barred most landlords from renting their apartments to short-term visitors. This resulted in 2,500 apartments being added back to the LTR market. However, in 2018 that law was overturned in favour of fewer restrictions so that owner-occupiers would be allowed to rent out their primary residence for an unlimited number of days and a second home for up to 90 days per year.

Conclusion

The rise of STR platforms has had a significant impact on affordability and availability in housing markets around the world, removing units from the rental and resale markets. Regulations have been implemented to address these challenges, with mixed success. Effective future policies will require several key components: specific and measurable goals, sufficient financial and human resources to implement and enforce regulations, accountability from STR hosting platforms, and disclosure of detailed, non-aggregated data by hosting platforms. Only then can governments expect high rates of compliance. As hosting platforms evolve, STR policies aimed at non-principal residence units will need ongoing monitoring, evaluation and adaptation. This could help ensure the future stability of the long-term rental and housing markets in cities large and small nationwide.