

# **Toronto's STR bylaws are good planning**

## **UPGo position paper**

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# Executive summary

The short-term rental (STR) bylaws approved by Toronto City Council in 2017 and 2018 constitute good planning, both in terms of adequately representing the public's interest and adhering to the objectives and policies set out in Toronto's Official Plan. The vision of the Plan is a Toronto with vibrant and complete communities, affordable housing choices, attractive and walkable neighbourhoods, a healthy natural environment, and a strong and competitive economy with well-paid, stable, safe, and fulfilling employment opportunities. The STR bylaws support this vision by protecting the city's long-term housing stock, preventing the displacement of existing residents, and strengthening urban planning capacity. By regulating commercial operations of short-term rentals, particularly by restricting short-term rentals to a host's principal residence, Toronto will be better able to keep housing affordable and available for Toronto residents.

## TORONTO'S SHORT-TERM RENTAL MARKET

- On April 30, 2019, there were **21,000 short-term rentals active in the City of Toronto**—a 10.9% year-over-year increase.
- Toronto has the most STR listings of any city in the country, and generates by far the most revenue. The city's **14,000 STR hosts earned \$208 million in revenue** last year.
- STR listings in Toronto are heavily concentrated in the downtown area, with a secondary concentration near Yonge and Sheppard.
- Toronto's STR market is dominated by **entire-home listings, which represent two thirds of active listings and five sixths of host revenue**. The majority of entire-home STR listings in Toronto are studio (9.7%) or one-bedroom (51.7%) units. 12.6% of entire-home listings are hosted in housing units with three or more bedrooms, which is considered family-appropriate housing by the City.
- STR revenue in Toronto is distributed in a highly unequal fashion: **more than two fifths of all revenue last year was earned by just one in twenty hosts**, and the most successful ten percent of hosts earned fully 56.4% of all STR revenue.
- **Nearly two fifths (37.9%) of active listings were commercial multilistings** (listings controlled by a host with two or more entire-home listings or three or more private-room listings), which earned 53.3% of total host revenue.
- **STRs have removed more than 5,500 housing units from Toronto's long-term housing market**. 4,800 of these were

frequently rented entire-home listings, and 745 were clusters of private-room listings operating out of the same housing unit. The equivalent figure one year ago was less than 4,500, which means that **there has been a 24.3% increase in STR-induced housing loss in the City of Toronto in the last twelve months**—a much higher growth rate than the growth in total active listings (10.9%).

- **There are approximately the same number of housing units converted to dedicated short-term rentals in**

**Toronto as there are housing units vacant and available for rent.** This means that, if commercial STRs were converted back to long-term housing, this would be equivalent to doubling the rental vacancy rate in the short-term, and bringing down rents in the long-term.

- **Approximately 40% of Toronto STR listings are likely in violation of the STR bylaws' principal residence requirement.** These 8,700 listings would not be permitted if the bylaws come into effect.

## SHORT-TERM RENTALS AND HOUSING LOSS IN TORONTO

The conversion of long-term housing into commercial short-term rental operations has direct and substantial impacts on housing availability and affordability for residents. By contrast, true “home-sharing”, where a resident activates extra capacity in their dwelling by renting it temporarily

to a visitor, has fewer negative effects on housing affordability and availability. The proposed bylaws would allow for “home-sharing”, while restricting commercial operations that have been removing more than 5,500 units of housing from the long-term market in Toronto.

## THE IMPACT OF SHORT-TERM RENTALS ON TORONTO NEIGHBOURHOODS

STRs have been shown to incentivize displacement of long-term residents, particularly from walkable neighbourhoods. This can substantially change the form and functioning of residential areas. STRs may bring new sources of revenues into neighbourhoods, but the majority of this benefit is accrued by STR hosts themselves, many of whom are not actually local residents. While this select group benefits, neighbours must bear the brunt of negative externalities from living next to tourist

residences, including increased noise and nuisance. In addition, an abundance of STRs in communities has been shown to negatively disrupt neighbourhoods through increased health and safety issues, and social impacts such as reduced community character and cohesion. By limiting STRs to principal residences, Toronto’s bylaws would reduce negative externalities associated with commercial STRs while continuing to allow home-sharing to flourish.

## THE ECONOMIC IMPACTS OF SHORT-TERM RENTALS

The influx of tourism dollars into a neighbourhood from STRs comes at the expense of housing availability and displaces long-term residents in favour of tourists. This leads to neighbourhood

economies that prioritize catering to the desires of tourists rather than to the day-to-day needs of locals. Furthermore, studies have shown that STR operations disproportionately benefit white

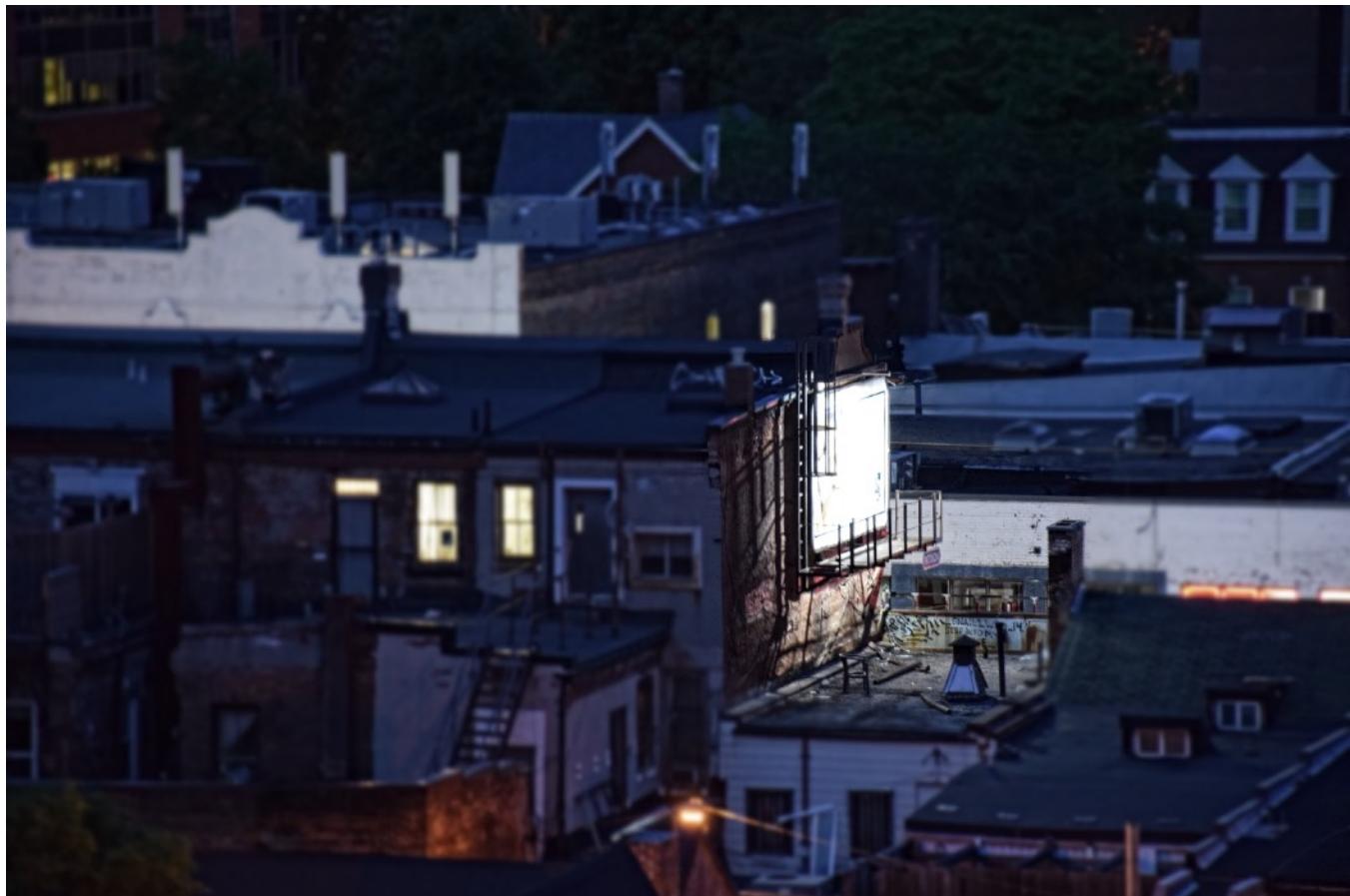
operators and neighbourhoods, raising questions of social and racial equity. Research has also demonstrated the negative impacts of STRs on the traditional hotel industry, with lower-end and independent hotels most seriously affected. Finally, we argue that although commercial-scale STR operations create new employment opportunities in supporting industries such as property

management and maintenance, these jobs are often casual, short-term, and exploitative because they lack the union-eligibility and other employee protections available to equivalent hotel-industry workers. The jobs created by commercial STR companies do not diversify the economic base, as the fundamental concept of the industry parallels that of the traditional hotel.

## RECOMMENDATION: THE SHORT-TERM RENTAL BYLAWS SHOULD BE UPHELD

The STR bylaws approved by City Council in 2017 and 2018 represent good planning and should be fully upheld by the Local Planning Appeal Tribunal. By supporting housing security, protecting existing rental stock, and regulating the use of new construction in a housing market with an extremely low — 1.1% — rental vacancy rate, the STR bylaws support the goals of housing availability and

affordability. Additionally, the bylaws protect the character of Toronto's unique residential neighbourhoods, supporting community cohesion and social capital. The proposed regulations reduce the precariousness of an unsustainable economic market, and ultimately, strengthen urban planning efforts towards a future consistent with the City of Toronto's Official Plan.



# 1. Short-term rentals and the City of Toronto

## TORONTO'S REGULATORY LANDSCAPE

Short-term rentals (STRs) are not currently permitted in the City of Toronto. In December 2017 and January 2018, City Council introduced new regulations to regulate short-term rentals in Toronto, including amendments to the zoning bylaws. These amendments have been appealed to the provincial Local Planning Appeal Tribunal (LPAT), with a hearing scheduled for August 26, 2019. The bylaws will come into effect should the LPAT dismiss the appeal.

The key features of the proposed STR bylaws are:

- Short-term rentals are permitted across the city in all housing types in residential and the residential component of mixed-use zones.
- People can host short-term rentals in their principal residence only; both homeowners and tenants can participate. Secondary suites residents can participate as long as the secondary suite is their principal residence.
- People can rent up to three bedrooms or the entire residence. Entire-home STRs are limited to 180 nights per year.

- STR hosts must register with the City and pay \$50, while STR platforms such as Airbnb must become licensed and pay a fee of \$5,000, plus \$1/night booked through the platform.
- STR hosts must pay a 4 per cent Municipal Accommodation Tax (MAT) on all rentals that are fewer than 28 consecutive days.

Evaluation of the City of Toronto's STR bylaws requires an empirical understanding of the STR market in Toronto. Accordingly we begin by presenting a brief overview of the current status of STRs in Toronto. The analysis is based on a comprehensive dataset of all Airbnb and HomeAway properties in the City of Toronto each day from October 1, 2014 to April 30, 2019. In total we analyze 24 million data points. The data was provided by AirDNA, a firm that specializes in scraping STR data, and one of the two primary sources for scholarly empirical analysis of STRs. Complete methodology details, along with all the code necessary to reproduce this analysis, are freely available under an MIT license on the UPGo GitHub page at [github.com/UPGo-McGill](https://github.com/UPGo-McGill).



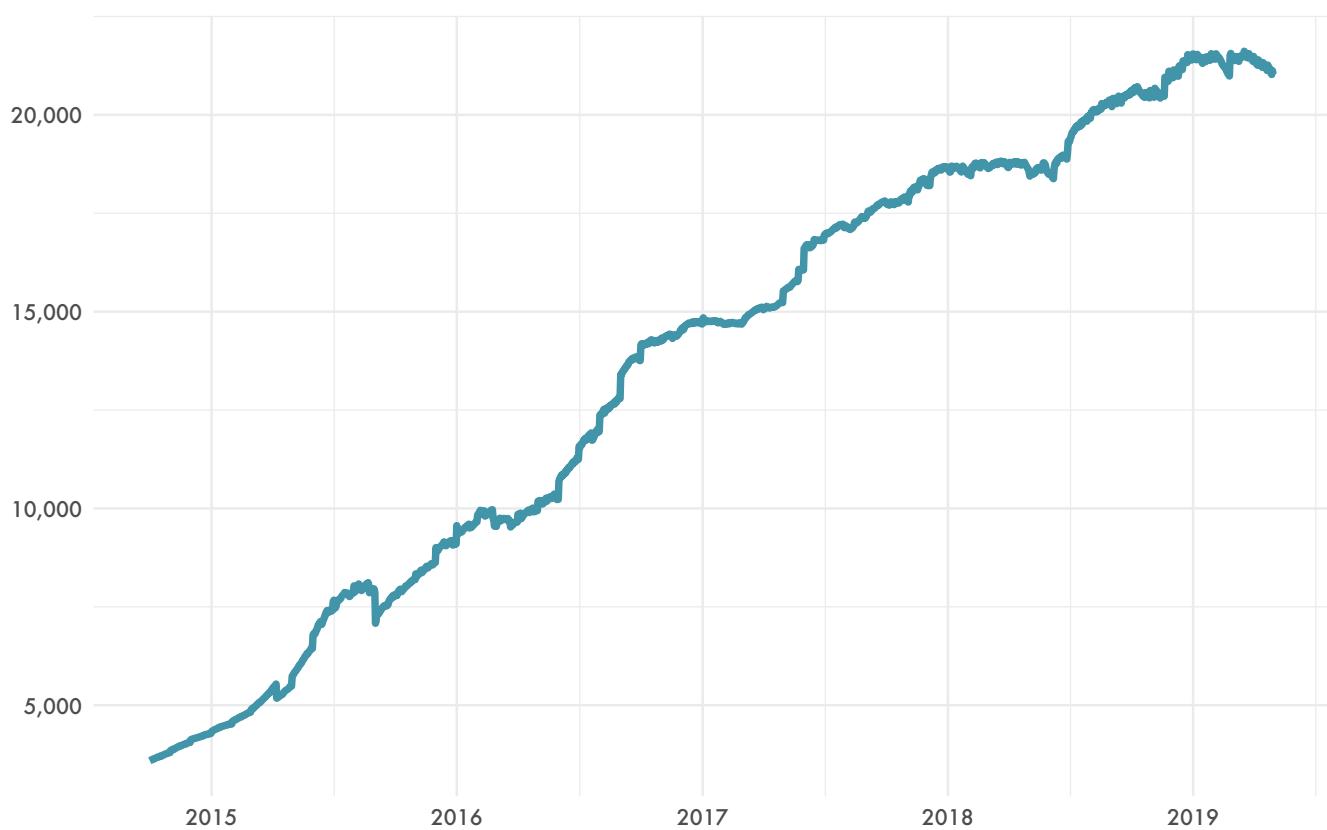


Figure 1: Active daily STR listings in the City of Toronto

## ACTIVE DAILY LISTINGS

"Active daily listings" are those which were displayed on either the Airbnb.ca or HomeAway.ca website on a given day, regardless of their availability status (reserved, available, or blocked). It is the clearest and least ambiguous means of determining the overall size of the short-term rental market in a location, particularly with respect to change over time.

On April 30, 2019, there were 21,409 active listings in Toronto. However, 229 of these were hotels or other traditional accommodation providers using the Airbnb platform for bookings. In all the analysis that follows, we exclude these listings, and focus on the 21,070 listings which were located in conventional

housing units. These 21,070 listings were operated by 14,026 hosts.

STR listings located in housing units in Toronto earned \$218.9 million last year (May 2018 - April 2019). The number of active listings in Toronto increased 10.9% from the previous year. Figure 1 shows the growth rate of active daily listings in Toronto.

Table 1 provides a comparison of the top five STR markets in Canada as of April 30, 2019. Toronto has the most active STR listings of any city in the country, although it is only slightly ahead of Montréal, which has a much lower population. However, Toronto's STR market generated by far the most revenue last year, on

the basis of its considerably higher average revenue per listing. (It is only surpassed by Vancouver in this regard.) Figure 2 shows the growth rates of active listings in each of these markets. It shows that Montréal has just recently been surpassed by Toronto in terms of

active listings, and that both of these cities are far ahead of the rest of the country with respect to the size of their short-term rental markets. (The figure also shows a significant drop in STR listings in Vancouver, following the introduction of regulations there last year.)

City	Active listings	Listings per 1000 residents	Annual revenue	Revenue per listing
Toronto	21,070	7.7	\$218.9 million	\$10,400
Montréal	21,044	12.3	\$174.4 million	\$8,300
Vancouver	5,536	8.8	\$115.6 million	\$20,900
Calgary	4,528	3.7	\$28.9 million	\$6,400
Ottawa	4,139	4.4	\$29.0 million	\$7,000

Table 1. STR activity in the top five Canadian cities

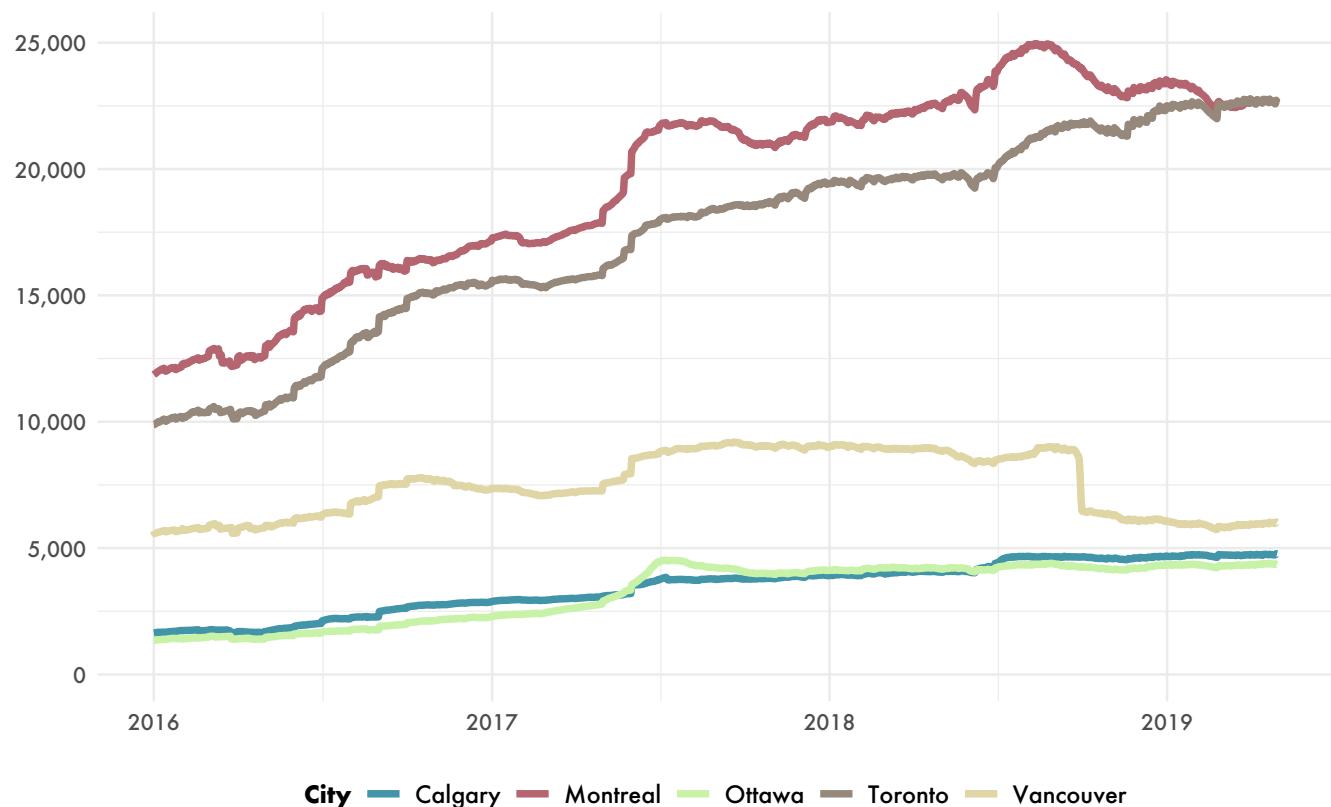


Figure 2: Active daily STR listings in the top five Canadian cities

## SPATIAL DISTRIBUTION OF LISTINGS

Figure 2 shows the location of active STR listings in the City of Toronto over the last four years, with their size proportionate to their annual revenue. It demonstrates that listings are heavily concentrated in the downtown area, with a secondary concentration near Yonge and Sheppard. It also

demonstrates the steady spread of STRs out of these areas of high concentration, with an increasingly large number of listings now located in low-rise residential neighbourhoods. All of the city's highest-earning listings are downtown, with the waterfront area particularly over-represented.

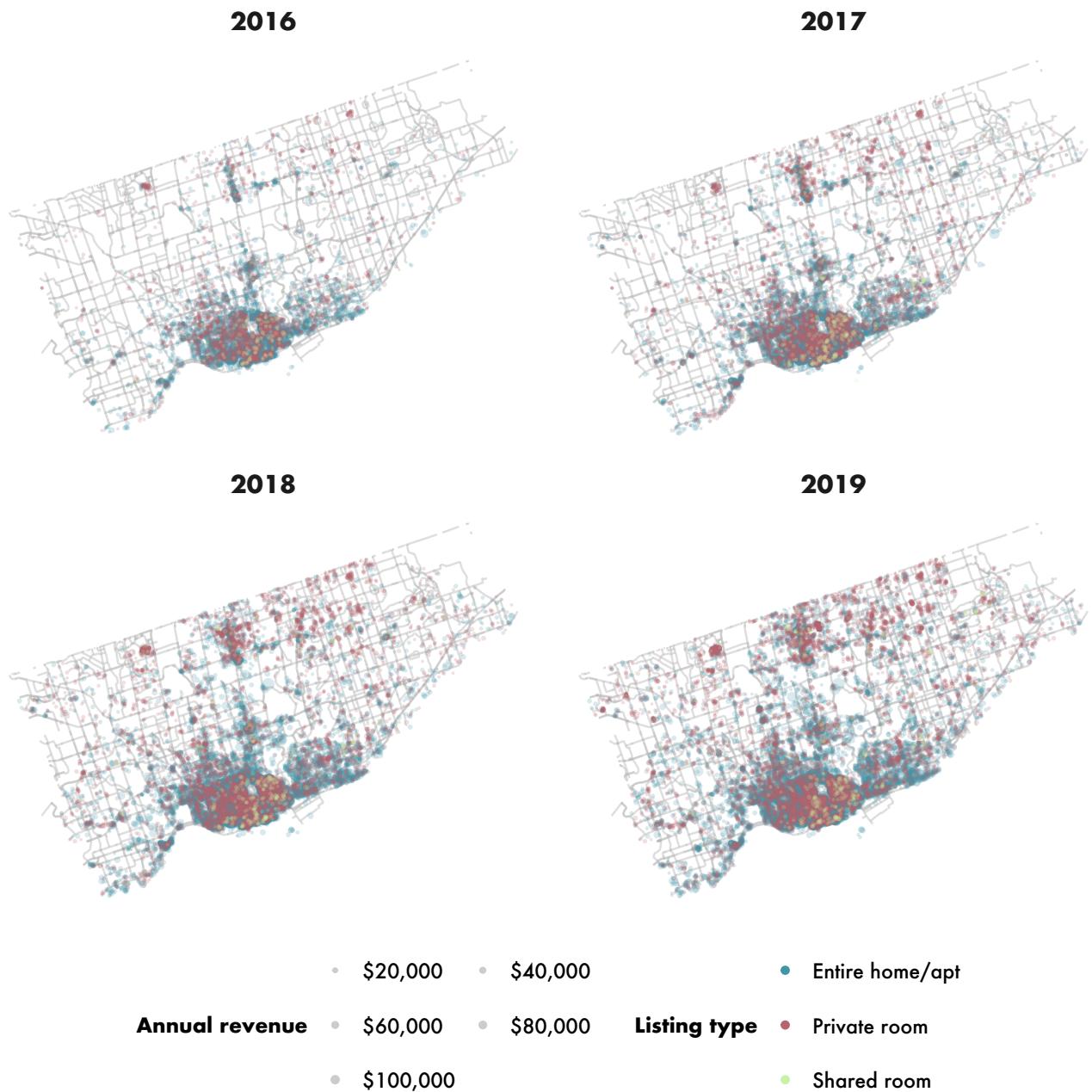


Figure 3: Spatial distribution of active STR listings in Toronto

## WHICH STR PLATFORMS ARE USED IN TORONTO?

Of the 21,070 STR listings active in the City of Toronto on April 30, 2019, 19,957 of them were listed exclusively on Airbnb, 363 were listed exclusively on HomeAway, and 750 were listed on

both Airbnb and HomeAway. This fact implies that attempts to estimate the extent of the STR market in Toronto using Airbnb data alone will be highly accurate.

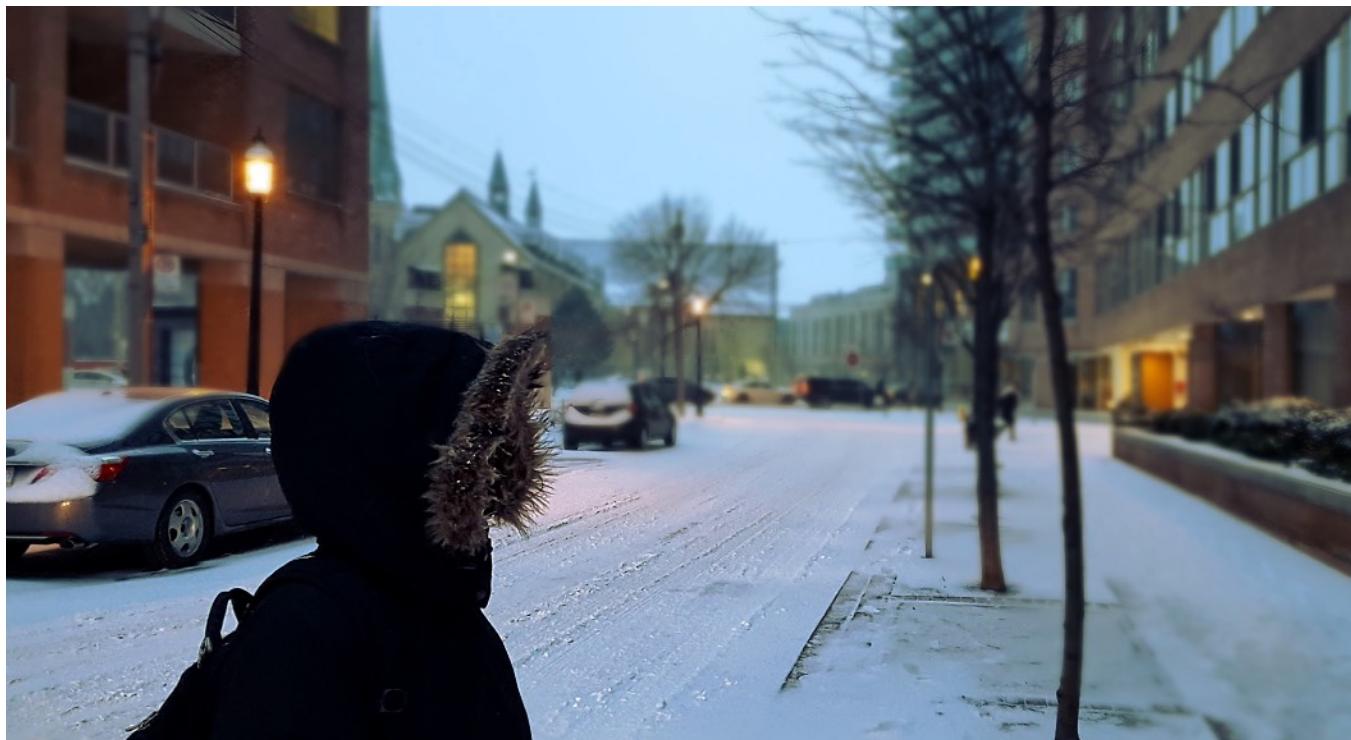
## LISTING TYPE PREVALENCE

STR listings can be one of three types: entire homes, private rooms, or shared rooms. Most policy attention has focused on entire-home listings, under the theory that these listings are most likely to generate harmful negative externalities, including housing loss and

neighbourhood nuisance. Table 1 provides the breakdown of listing types in Toronto on April 30, 2019. It demonstrates that Toronto's STR market is dominated by entire-home listings, which make up two thirds of all active listings and earn five sixths of all host revenue.

Listing type	Active listings	Annual revenue	% of all listings	% of annual revenue	Revenue per listing
Entire home/apt.	13,845	\$187.7 million	65.7%	85.8%	\$13,600
Private room	6,874	\$30.2 million	32.6%	13.8%	\$4,400
Shared room	351	\$0.9 million	1.7%	0.4%	\$2,700

Table 2. Listing type prevalence in Toronto



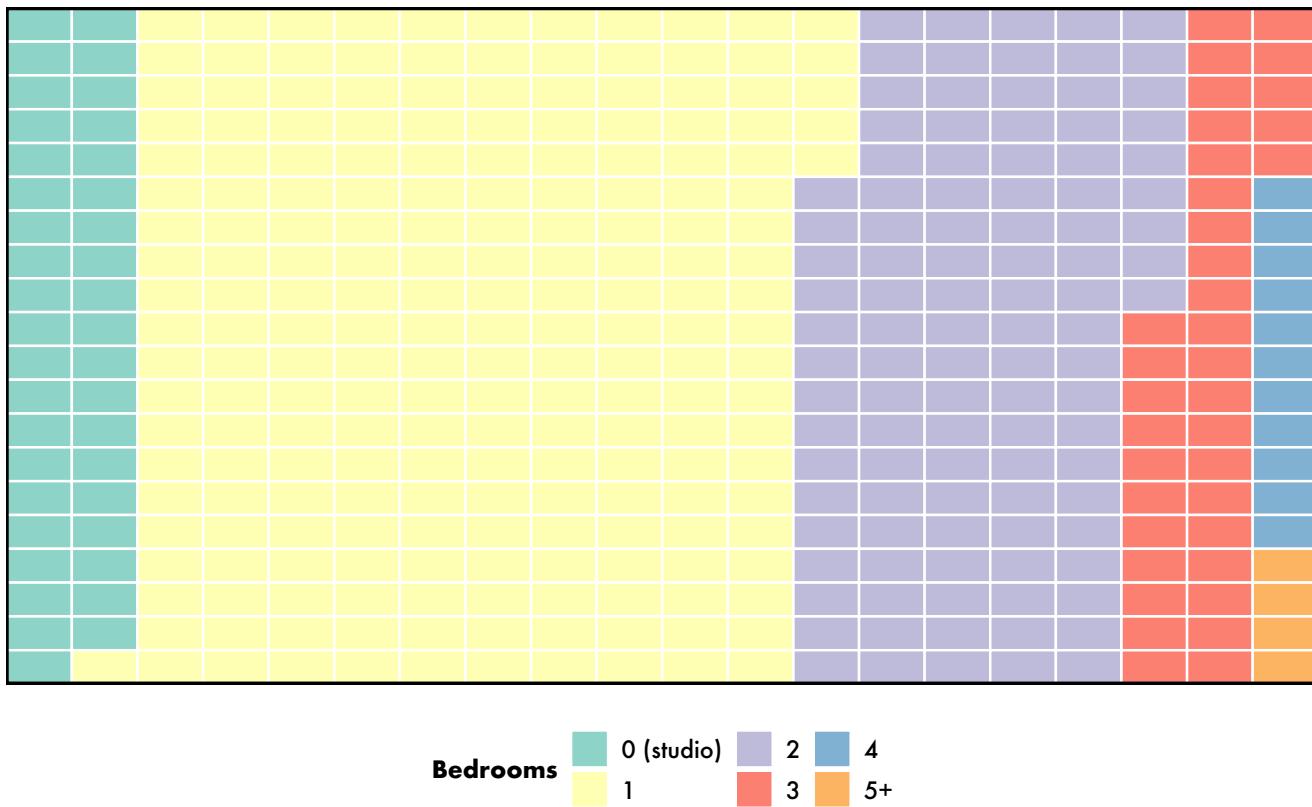


Figure 4: Bedroom sizes among Toronto entire-home STRs

## BEDROOM BREAKDOWN

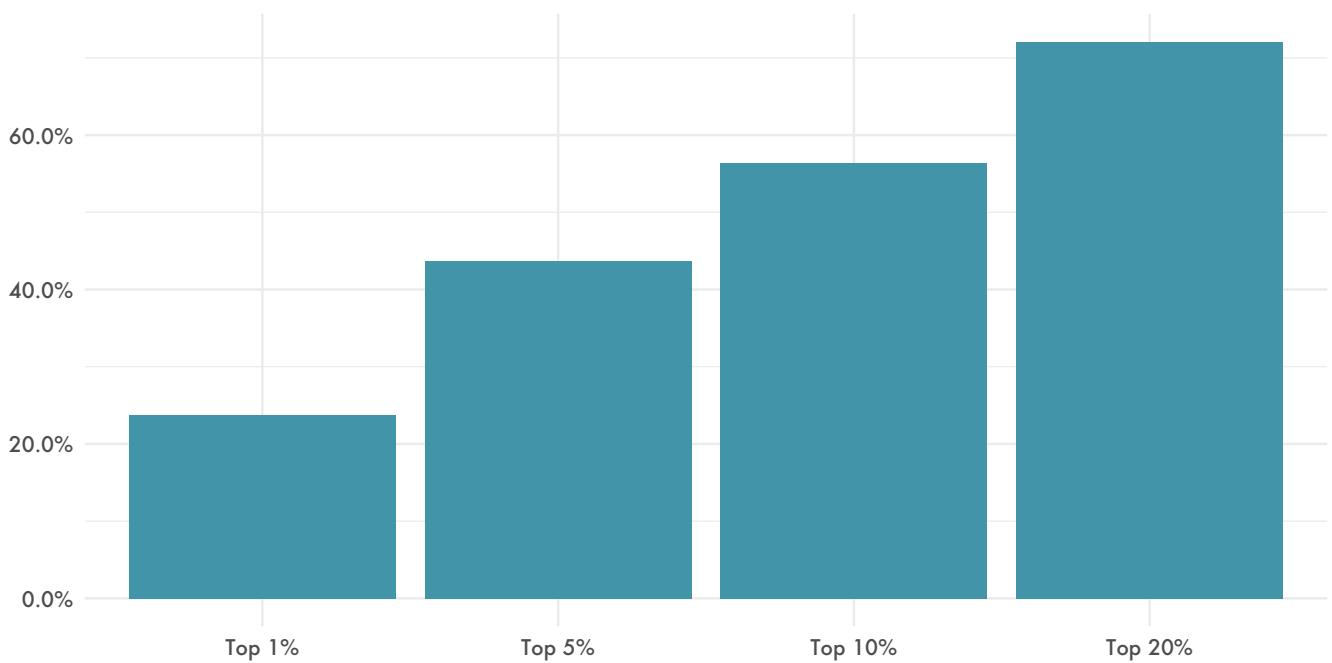
Since almost every STR in Toronto is being operated out of a housing unit which could otherwise be housing a long-term resident, the size of these units is an important factor in determining the impact of STRs on housing supply in the city. If most housing units being listed as STRs are studios and one-bedroom apartments, the opportunity cost of not housing long-term residents in those units will be somewhat lower than if most of the units are family-sized. Figure 4 shows the breakdown of

bedroom types among active entire-home listings. (Private-room and shared-room listings are overwhelmingly listed as having one bedroom, but the actual size of the dwelling unit cannot be inferred from that fact.) As the figure indicates, the majority of entire-home STR listings in Toronto are studio (9.7%) or one-bedroom (51.5%) units. 12.8% of entire-home listings are hosted in housing units with three or more bedrooms, which is considered family-appropriate housing by the City.

## REVENUE DISTRIBUTION AND COMMERCIAL OPERATORS

A crucial distinction for understanding the structure of an STR market is the distinction between casual STRs ("home-sharing") and dedicated STRs ("commercial operations"). There

are multiple ways to capture this distinction, but arguably the most straightforward is to examine the distribution of revenue among STR hosts. Figure 4 shows the percentage of the total \$218.9



*Figure 5: STR host revenue distribution in Toronto*

million in STR revenue last year which accrued to the top ten percent, five percent and one percent of Toronto hosts. More than two fifths of all revenue was earned by just one in twenty hosts, and the most successful ten percent of hosts earned fully 56.4% of all STR revenue.

What this analysis suggests is that STR regulations which targeted dedicated commercial operations would likely only affect a small number of STR hosts in absolute terms, since most hosts earn revenue which is consistent with them being casual, part-time home sharers operating out of

their principal residence. As Table 3 shows, the median host revenue in Toronto last year was \$7,700, while the top earning host earned more than \$350,000 in Toronto. (In fact, the top earning hosts had listings in other cities in Canada, including elsewhere in the Greater Toronto Area, so their total earnings were much higher than this.)

Another way to identify commercial operators is to look for hosts who operate multiple listings. To take the simplest case, by definition a host with two or more entire-home listings cannot be operating both listings out of their principal residence. We define a “multilisting” as any listing operated by a host who is simultaneously operating other listings. If a host has two or more entire-home listings active on the same day, those are multilistings. We likewise identify private-room multilistings in cases where a host has three or more private-room listings operating on the same day. Since 96.2% of entire-home listings have three or fewer bedrooms, there will be extremely few cases where a host operating three private-

Host percentile	Annual revenue
25th percentile	\$2,600
50th percentile (median)	\$7,700
75th percentile	\$18,400
100th percentile	\$355,700

*Table 3. Toronto STR host earnings*

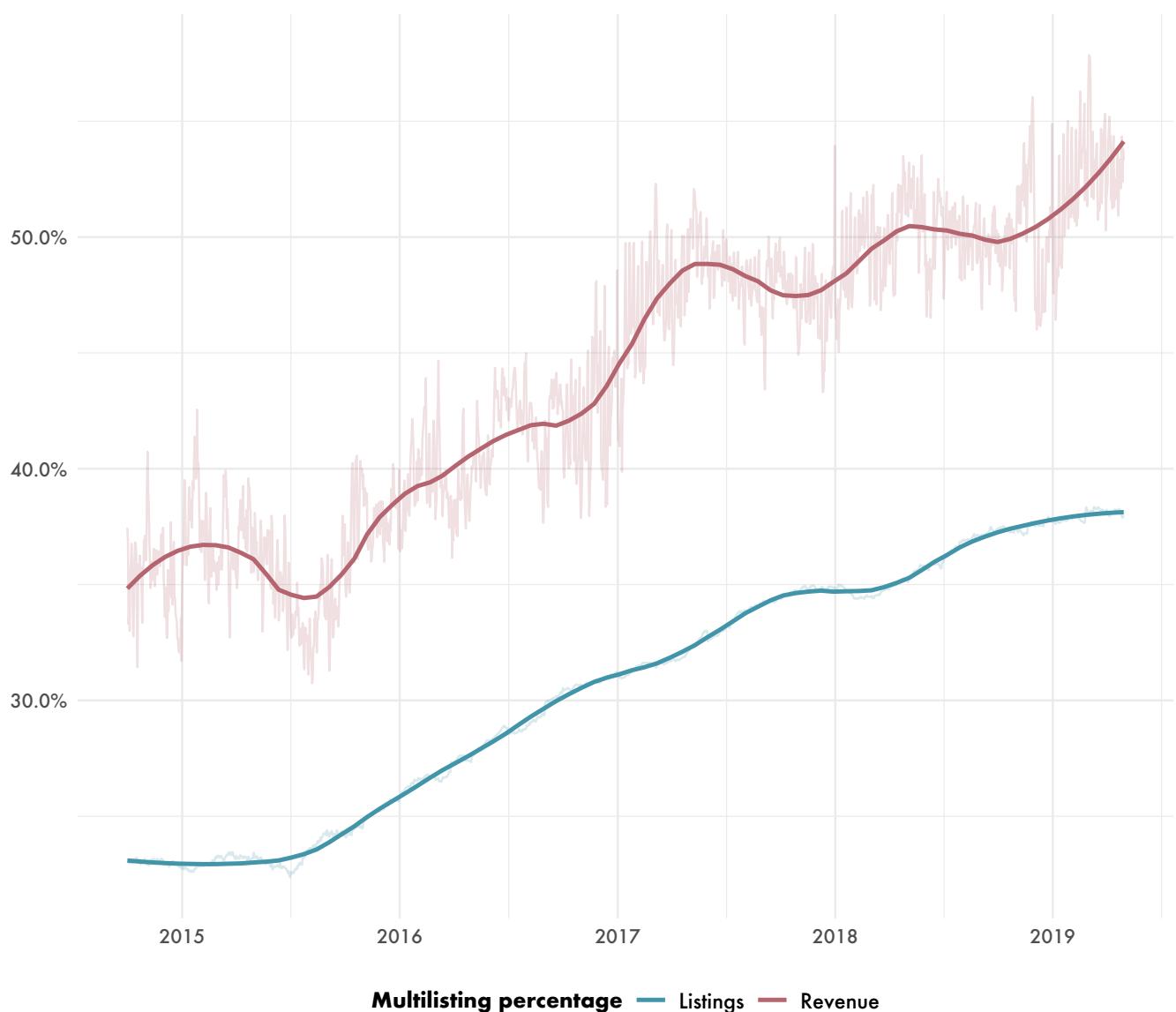


Figure 6: The percentage of total listings and revenue accounted for by multilistings

room STR listings in a dwelling unit has not converted that unit into a dedicated STR operation.

The results of Figure 6 demonstrate that a large and increasing share of both active listings and host revenue in Toronto belong to multilistings. As of April 30, 2019, 37.9% of active listings were multilistings, and these listings earned 53.3% of total host revenue. Moreover, these figures should be taken as absolute minimums, since many commercial operators split their operations across

several Airbnb or HomeAway accounts, and their listings would therefore be erroneously counted as non-commercial. Moreover, many—perhaps most—STR commercial operators only operate a single listing, but operate it on a full-time basis. A house owner with a secondary suite, or the owner of an investment condo who operates an STR in it, are clearly commercial operators running listings which are not their principal residences, but they would not be counted by this method of identifying multilistings.

## HOUSING LOSS

One of the most important considerations when gauging the impacts of STRs on a city is the extent to which STRs are removing long-term housing from the market. This process can occur either directly, where tenants are evicted or not replaced at the end of a lease, or indirectly by absorbing new construction which otherwise would have gone onto the long-term market. To obtain a precise number of such cases of housing loss, STR hosts would need to be individually surveyed, which is infeasible because hosts are anonymous on the Airbnb and HomeAway platforms.

One reasonable proxy for STR listings which represent long-term housing loss is multilistings, discussed in the previous section, since these are highly likely to be commercial operations, and by definition cannot be operated out of a host's principal residence.

Another method, arguably simpler, is to identify listings which are highly available throughout the year and which receive many bookings. Along these lines, we define frequently rented entire-home listings, or FREH listings, as entire-home listings which were available on Airbnb or HomeAway a majority of the year (at least 183 nights) and were booked a minimum of 90 nights. Except in the rare cases of residents who travel most of the year, it would be very difficult for someone to rent their home as an STR a majority of the year and still actually live there. As of April 30, 2019 there were 4,812 FREH listings in Toronto. These listings are what Airbnb has called "ghost hotels"—entire homes converted to dedicated STR operations. Each of these dwelling units could be housing Toronto residents, but instead, are serving as de facto hotels.

These 4,812 FREH listings are a good starting point for estimating housing loss caused by conversions to STR. However, it is also possible that private-room listings are contributing to

housing loss. To begin with, a full-time private-room STR might have otherwise been offered to a roommate on a long-term lease. But it is also possible that entire housing units have been subdivided into multiple private-room listings. We call these "ghost hostels", in analogy to the ghost hotels discussed above. We detect ghost hostels by finding clusters of three or more private-room listings operated by a single host, whose reported locations are close enough to each other that they could have originated in the same actual housing unit. (Airbnb and HomeAway obfuscate listing locations by shifting them randomly up to 200 m.) In addition to the 4,812 FREH listings, we identified a further 745 housing units which we believe had been converted into ghost hostels.

As of April 30, 2019, therefore, we believe there were 5,557 housing units in the City of Toronto which were being used as dedicated short-term rentals and therefore are not being offered on the long-term rental market. 4,812 of these were frequently rented entire-home listings, and 745 were clusters of private-room listings operating out of the same housing unit.

The equivalent figure one year ago (April 30, 2018) was 4,469, which means that there has been a 24.3% increase in STR-induced housing loss in the City of Toronto in the last twelve months—a much higher growth rate than the growth in total active listings (10.9%). Figure 7 shows the growth rate in STR-caused housing loss in Toronto since 2015, and demonstrates the steep growth curve of this housing loss, suggesting it will continue growing unless regulatory measures are taken to slow it.

One way to contextualize the magnitude of STR-caused housing loss in Toronto is to compare the number of housing units converted to STRs with the number of vacant rental units available for rent. Toronto currently has a very low rental

vacancy rate of 1.1%. Given the size of Toronto's rental housing stock, this means that, at any given moment, there are approximately 5,800 apartments available for rent in the city. There are nearly this many housing units which have been converted to dedicated STRs in the city.

In other words, if all the dedicated STRs in Toronto were returned to the long-term housing market,

the effect would be to nearly double the city's rental vacancy rate in the short term. These newly available units would be absorbed relatively quickly by new tenants, and the vacancy rate would decline again. But it would settle at a new equilibrium higher than the previous one, and residential rents would likewise be lower than they would have been if the STR units continued to act as hotels rather than housing.

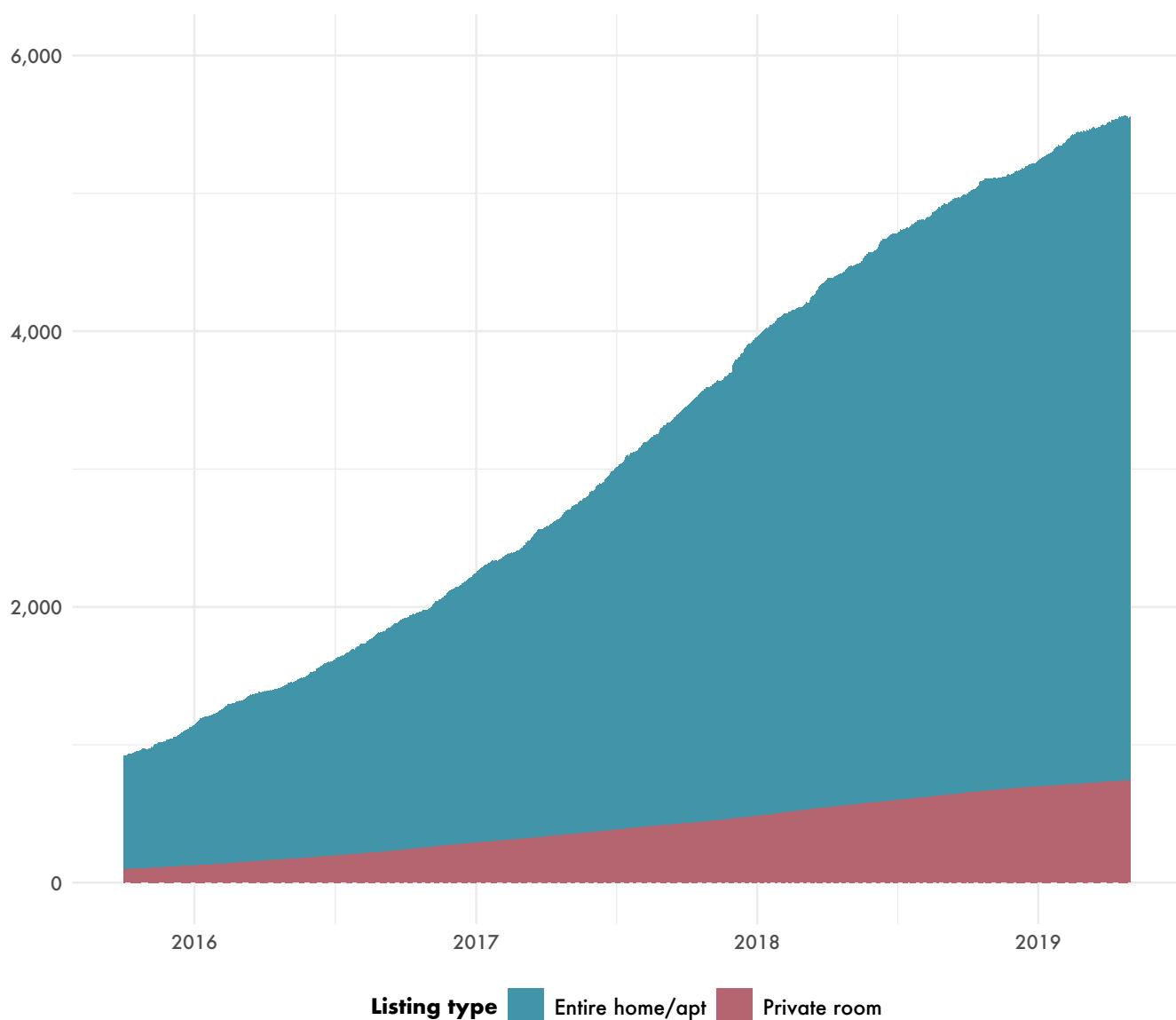


Figure 7: Housing units converted to dedicated STRs in Toronto

## **LISTINGS LIKELY IN VIOLATION OF THE PRINCIPAL RESIDENCE REQUIREMENT**

Regarding the principal residence requirement in the City of Toronto's STR bylaws, the bylaws require that all STRs be operated out of a host's principal residence. This principle residence requirement implies that numerous currently existing STRs will become illegal and will need to be closed. Here we provide an estimate of listings which will be in violation of the bylaws if they come into effect.

We begin with the 21,070 STR listings active on April 30, 2019. Entire-home multilistings will, with one important exception to be discussed momentarily, by definition violate the principal residence requirement, since a person cannot claim multiple homes as their principal residence. There were 5,274 entire-home multilistings. However, it is possible that a host rents out their own principal residence occasionally while also operating additional entire-home listings. So we conservatively assume that the least frequently rented entire-home multilisting is in fact the host's principal residence. There are 1,210 such

listings, which leaves 4,064 likely in violation of the principal residence requirement.

To this number we add the FREH listings which were not already included in the list of multilistings. There are 2,298 such listings, which brings the total listings likely in violation of the principal residence requirement to 6,362. Finally, we add private-room listings located in ghost hostels. There are 2,363 of these listings. This means, in total, that 8,725 of the 21,070 STR listings active in the City of Toronto are likely in violation of the principal residence requirement of the City's STR bylaws. This is 41.4% of active listings.

To be clear, there is a relatively high level of uncertainty in this estimate, since assumptions had to be made at each step of the analysis. However, given that jurisdictions which have imposed principal residence requirements have seen drops in active listings in the realm of 30-50%, a 41.4% estimate seems plausible.

## **TORONTO'S NEW SHORT-TERM RENTAL BYLAWS AS GOOD POLICY**

This brief empirical picture of short-term rental activity in the City of Toronto is meant to provide factual context for the question of whether the STR bylaws approved by Toronto City Council in 2017 and 2018 constitute good planning, and whether they should be upheld by the LPAT in the August 2019 hearings.

On the basis of this empirical discussion, we now proceed to outline a case for why the bylaws constitute good planning, both in terms of adequately representing the public's interest and adhering to the objectives and policies set out in Toronto's Official Plan. The vision of the Plan is a Toronto with vibrant and complete communities, affordable housing

choices, attractive and walkable neighbourhoods, a healthy natural environment, and a strong and competitive economy with well-paid, stable, safe, and fulfilling employment opportunities.

The STR bylaws support this vision by protecting the city's long-term housing stock, preventing the displacement of existing residents, and strengthening urban planning capacity. As we will demonstrate, by regulating commercial operations of short-term rentals, particularly by restricting short-term rentals to a host's principal residence, Toronto will be better able to keep housing affordable and available for Toronto residents.

## 2. Short-term rentals cause housing loss

### REMOVAL OF LONG-TERM HOUSING UNITS

Housing is lost to short-term rentals through commercial operations, in which homes or clusters of private rooms are rented for the majority of the year. The conversion of long-term housing into commercial short-term rental operations has direct and substantial impacts on housing availability and affordability for residents (Barron et al., 2018; Horn & Merante, 2017; Lee, 2016; Wachsmuth & Weisler, 2018; Wachsmuth et al., 2018). We estimate that there are more than 5,500 housing units in the City of Toronto being used as dedicated short-term rentals, an increase of 24.3% from the year prior. Unless regulatory measures are taken, our data analysis suggests that the conversion of Toronto housing to short-term rentals will continue to grow.

The directly competing land use for commercial short-term rental operations is long-term rentals. Under the proposed STR bylaws, the majority of the 5,557 units taken off the market would be returned to the long-term housing market. Given the city's extremely low rental vacancy rate of 1.1%, the return of these units would essentially double the entire stock of rental housing vacant and available in the short term, before a new, lower-price and higher-availability equilibrium is achieved. This would have a significant, positive economic impact for both Toronto renters and all residents alike, through the mitigation of housing price increases.

In comparison with dedicated commercial STRS, true "home-sharing", where a resident activates slack capacity in their dwelling by renting it temporarily to a visitor, will have significantly reduced negative effects on housing affordability and availability. The most efficient means of

limiting short-term rentals to "home-sharing" arrangements is through the principal resident requirement in the STR bylaws—whereby people may host short-term rentals in their principal residence only. Restricting short-term rentals to "home-sharing" arrangements allows for residents to generate additional income from their property, be it rented or owned, while simultaneously diminishing the impacts on housing affordability and availability that commercial operations exacerbate.

Approximately two in five currently active STR listings in the City of Toronto are likely in violation of the principal residence requirement, and thus, would likely be illegal. By limiting the number of commercial short-term rentals through this requirement, the STR bylaws will prevent the conversion of additional long-term housing into STRs, and facilitate the return of many current STRs to the long-term housing market.

The STR bylaws define a short-term rental as a rental of fewer than 28 days. While STR platforms may be used for longer-duration rentals, our data analysis has shown that long-term rentals booked through these platforms are very rare. Out of 1,444,241 reservations on Airbnb and HomeAway in the City of Toronto, only 1.5% were 28 days or more.

By defining STRs as rentals of fewer than 28 days, the STR bylaws also effectively define long-term rentals as rentals of 28 days or more, consistent with other North American cities' approaches to regulating STRs such as in Seattle, Denver, Vancouver, and New York City. There is a proper planning basis for this distinction, since it provides a relatively efficient separation between

durations of stay which are common for tourist uses and durations of stay which are common for Toronto residents. While no numerical threshold will perfectly divide uses in 100% of cases, the evidence suggests that defining short-term rentals as fewer than 28 days is an efficient means of distinguishing tourist from residential land uses. Setting this threshold effectively captures current patterns of STR usage, while simultaneously allowing existing STR operators to convert their listings to longer-term rentals—either on their STR platforms or not—which is consistent with the City’s and the Province’s interest in ensuring an adequate supply of rental housing.

Ultimately, the STR bylaws will almost certainly have a positive impact on Toronto’s housing market. The STR bylaws will return properties to the long-term rental market while increasing housing affordability. The bylaws permit property owners and tenants to rent out spare rooms or their entire residence, temporarily, to help mitigate housing costs. As dedicated STRs are returned to the housing market, there will be a corresponding decrease in the availability of short-term tourist accommodations. This shift would represent an appropriate protection of the public interest, the City’s planning priorities, and matters of provincial interest.

## SECONDARY SUITES AS PRIMARY HOUSING

A secondary suite is defined in Toronto as a “self-contained living accommodation for an additional person or persons living together as a separate single housekeeping unit, in which both food preparation and sanitary facilities are provided for the exclusive use of the occupants of the suite, located in and subordinate to a dwelling unit.” (Bylaw 1452-2017). The secondary rental market, composed of rented condominiums and secondary suites, has been essential in meeting rental demands in the City of Toronto (CANCEA & CUI, 2019; Wieditz, 2019). Its continued availability for long-term rentals is critical in preserving and increasing housing affordability and availability. As secondary suites effectively serve as separate housing units, it is appropriate to subject them to the same principal residence requirements as all entire homes.

According to the Official Plan, Policy 3.2.1.10, “second units will be encouraged in order to increase the supply and availability of rental housing across the city and within neighbourhoods”. This suggests that the primary purpose of secondary suites is to increase

housing supply, rather than provide an additional income stream, in accordance with the STR bylaws. Moreover, the STR bylaws are not restricting all rental activity in secondary suites, since owners may still earn extra income through conventional rental leases.

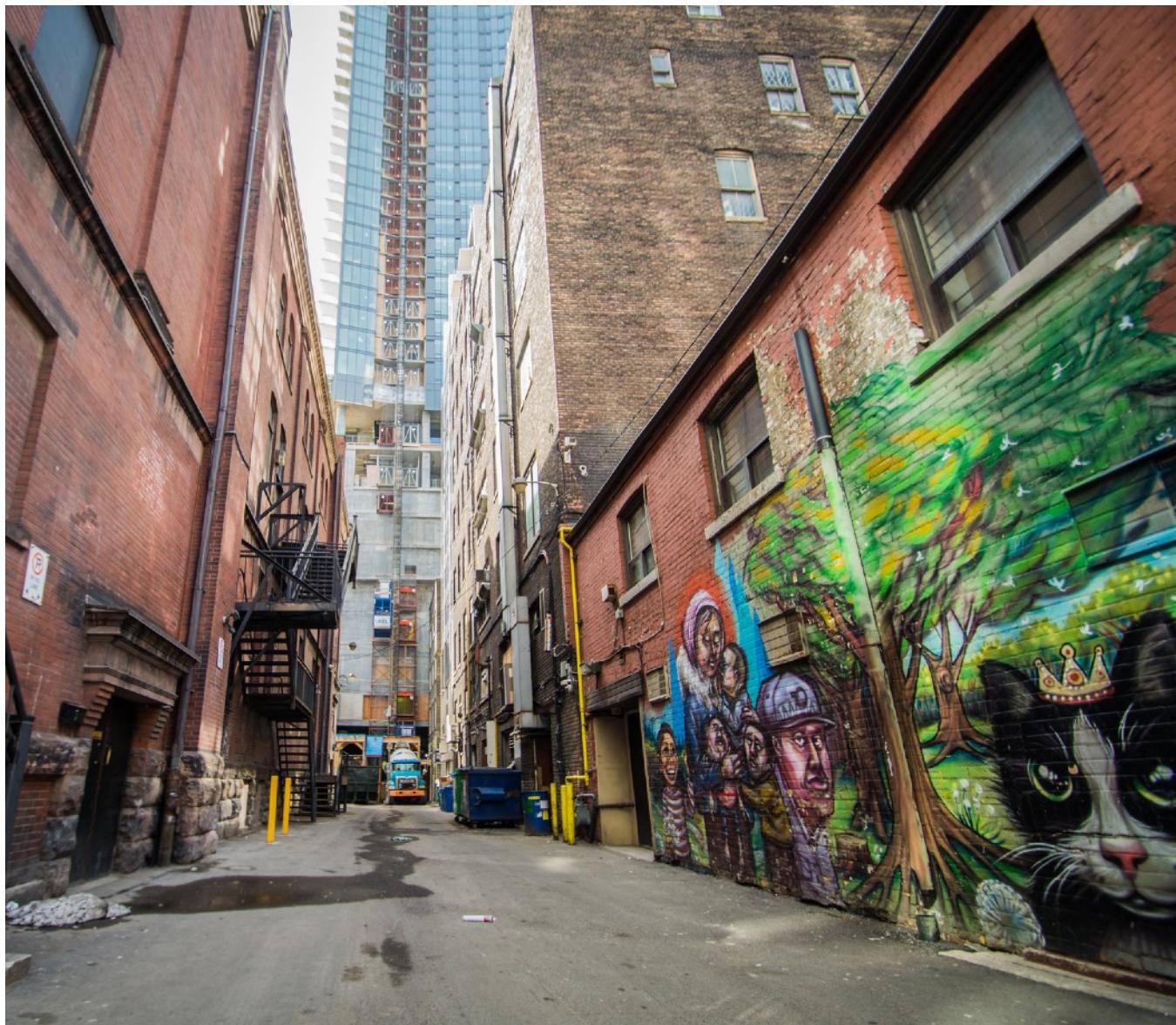
As previously discussed, dedicated STRs have the effect of directly reducing the affordability and availability of housing, whereas limiting STRs to home-sharing within an owner’s principal residence has a much lower negative impact on local housing markets. Providing an exception to the principal residence requirement for secondary suites would substantially undermine the effectiveness of the STR bylaws because it would facilitate the ongoing conversion of a significant stock of potential long-term housing into short-term tourist accommodation (Wieditz, 2019). Therefore, restricting secondary suite short-term rental activity to an owner’s or renter’s principal residence has the same legitimate planning rationale as disallowing all short-term rentals in dwellings that do not serve as a principal residence.

## THE SOCIAL DIMENSION TO STR-INDUCED HOUSING LOSS

Short-term rentals not only have an economic impact on Toronto's housing market, but also a social one. Given the clear empirical evidence that STRs contribute to gentrification and displacement of renters, the implication is that STRs are contributing to housing precarity in Toronto.

One concern about restricting STRs is that this would prejudice city residents who are living in precarious or non-conventional circumstances and who cannot commit to long-term residential

leases. The truth, in fact, is the opposite, and the STR bylaws would almost certainly improve the situation of these people. Because STRs tend to be located in transit accessible, or walkable neighbourhoods, the STR bylaws may help preserve the supply of housing for those unable to drive or those requiring easy access to social services often located downtown or in these transit accessible, walkable neighbourhoods. The proposed bylaws help support a range of housing options, and preserve affordable housing from being placed on the STR market.



## HOUSING AS A PLANNING PRIORITY

Preserving affordable housing is a municipal planning priority, as outlined in Toronto's Official Plan. The Plan's housing objectives are oriented towards meeting the housing needs of Toronto residents, and numerous policies explicitly state the objective of increasing the breadth and depth of housing supply (see sidebar).

**"A full range of housing, in terms of form, tenure and affordability, across the City and within neighbourhoods, will be provided and maintained to meet the current and future needs of residents" (3.2.1.1).**

**"The existing stock of housing will be maintained, improved, and replenished", including through "preserving what we have" by "preventing the loss or deterioration of units" (3.2.1.2).**

### *City of Toronto Official Plan*

The conversion of housing into commercially-operated short-term rentals removes housing from the long-term rental market, in direct opposition to the Plan's vision and policies. The Plan also outlines a no-development policy (3.2.1.6) if the development would have the effect of removing six or more rental housing units, unless rents exceed mid-range, housing is replaced and tenants are relocated, or the vacancy rate is above 3%; these conditions are presumably not met in a large portion of current commercial short-term rental operations. The STR bylaws would prevent the violation of these policies by solely allowing STRs in principal residences.

The existence of commercial short-term rentals not only fails to support the Official Plan's objectives, but actively undermines these objectives by removing potential housing supply from the long-term rental market. Since research has shown the greatest substitutability between short-term rentals and actual housing lies with long-term rental units, the existence of commercial short-term rentals actively hinders the Official Plan's emphasis on protecting existing rental housing and encouraging the development of new rental housing.

Affordable housing is not only a municipal priority, but also a provincial one. The Provincial Policy Statement (PPS) (1.4.3) states: "Planning authorities shall provide for an appropriate range and mix of housing types and densities to meet projected requirements of current and future residents of the regional market area by permitting and facilitating: 1. all forms of housing required to meet the social, health and well-being requirements of current and future residents, including special needs requirements; and 2. all forms of residential intensification, including second units, and redevelopment in accordance with policy 1.1.3.3." The STR bylaws are consistent with the PPS, in terms of the scope of the planning authorities' ability to regulate housing in order to achieve the goals set out in the provincial and municipal policies. The objectives of the bylaws are also in line with the directives set out in the policy document.

Preserving housing affordability and availability is a planning priority in Toronto—an increasingly important one in the context of an extremely low vacancy rate, and as housing continues to be lost to STRs. The proposed short-term rental bylaws act in accordance with municipal and provincial planning objectives, while protecting the public's interest and right to accessible, affordable housing.

### 3. The neighbourhood impacts of short-term rentals

#### SOCIAL IMPACTS

Research demonstrates that commercial STRs have a range of negative consequences, not only through their impacts on local housing supply as previously discussed, but also through impacts on neighbourhood quality of life (Gurran and Phibbs 2017; Wachsmuth and Weisler 2018).

An abundance of STRs in communities has been shown to negatively disrupt neighbourhoods. These disruptions include noise and nuisance concerns, as well as crime, traffic, and neighbourhood safety (Gurran & Phibbs, 2017; Lambea Llop, 2017). Safety plays a role in neighbourhood character and quality, which is directly impacted by the presence of transient visitors—without long-term investment in the well-being or quality of the neighbourhood—staying in short-term rentals. By restricting dedicated commercial STR operations, the bylaws help protect public interest and the orderly development of safe and healthy communities, both stated matters of provincial interest.

Our data suggests that a large number of Toronto's short-term rentals are located in traditional, low-rise, residential communities. The concentration of short-term rentals in desirable neighbourhoods such as Kensington Market has displaced residents from livable communities, in direct opposition to encouraging livable communities, as set out as an objective in the City's Official Plan. Some residents perceive the commercialization of residential areas as "an infringement of their own property rights, including the right to enjoy a 'residential community'" (Gurran et al. 2018: 406). High concentrations of short-term rentals in these neighbourhoods may reduce community resilience through decreased social cohesion and a heavy,

one-dimensional reliance on the seasonal short-term rental industry (Forrest & Kearns, 2001; Gurran & Phibbs, 2017; Lambea Llop, 2017). In a study conducted in Denver, Colorado, interviewees claimed that STRs led to a "loss of culture" in neighbourhoods (Nieuwland & van Melik, 2018). Short-term stays decrease social capital, affecting place attachment, civic culture, social order, and social solidarity (Forrest & Kearns, 2001; Gurran & Phibbs, 2017; Lambea Llop, 2017).

The proposed bylaws would prevent this loss of social cohesion through the principal resident requirement. Residential neighbourhoods currently oversaturated with short-term visitors would return to a more sustainable balance between residents and visitors, with long-term residents having renewed agency over their community.

Unregulated, commercial operation of short-term rentals is not in the interest of sustainable neighbourhoods, nor sustainable tourism. While tourist districts are designed to provide tourist amenities (e.g. more trash bins, parking allowances, street cleaning, public washrooms), the explosive growth of short-term rentals in residential areas has threatened to erode the character of popular neighbourhoods in cities such as Barcelona (Gant, 2016), New Orleans (Walker, 2016), and Berlin (Füller & Michel, 2014). STRs entering residential neighbourhoods complicates the traditional approach to sustainable tourism planning which seeks to co-locate tourist accommodations alongside attractions. The proposed bylaws would control and guide this growth in a sustainable manner, while still providing opportunities for residents to harness slack housing capacity to generate additional income.

## THE ENVIRONMENTAL NEIGHBOURHOOD IMPACTS OF SHORT-TERM STAYS

STRs have been shown to incentivize displacement of long-term residents from walkable neighbourhoods, particularly those connected to employment centres by transit (Deboosere et al., 2019; Wachsmuth & Weisler 2018). The conversion of housing units to dedicated STRs in desirable and transit-accessible areas implies the displacement of long-term tenants into more affordable but less accessible areas, which will plausibly lead to reductions in

the use of active transportation, increased overall transportation costs, and greater transit-related environmental footprint among residents (Deboosere et al., 2019). The proposed bylaws, by limiting or preventing displacement of long-term residents by STRs, will help enable residents to remain in these areas, reducing the reliance on personal automobiles for transportation, which is, in turn, a major source of carbon emissions.

## THE PHYSICAL NEIGHBOURHOOD IMPACTS OF SHORT-TERM STAYS

Many studies have shown that high concentrations of STRs transform residential areas (Gurran and Phibbs, 2017; Namberger et al, 2019; Gant, 2016). In essence, residential neighbourhoods begin to operate as hotel districts, without any of the required amenities and infrastructure, leading to repeatedly cited issues in regards to parking, trash, and so forth (Smith, 2018). In a case study on short-term rentals in Denver, Colorado, researchers found that trash and parking issues were mentioned as concerns by 90% of their interview subjects. Unregulated short-term rental activity has been noted to disrupt municipal trash operations as well as put stress on public infrastructure and amenities, particularly problematic in cases of commercial operations (Nieuwland & van Melik, 2018). Effective regulation of short-term rentals would allow for more effective planning and accurate anticipation of use.

Other issues pertain specifically to the maintenance and quality of the units rented as short-term rentals, impacting, in particular, the neighbours, fellow residents, and future residents of the unit and neighbourhood at large. Unit maintenance has traditionally been the responsibility of the principal resident, but STR platforms such as Airbnb have dispersed that

responsibility (Marzen et al. 2017). Such consequences and negative externalities of short-term rentals are exacerbated by the absence of the unit's owner as principal resident (Nieuwland and Melik 2018), as those inhabiting the unit short-term do not have the same responsibility and long-term investment in the property and neighbourhood.

Limiting STRs to the principal residence is now widely understood to be an effective means of minimizing the negative externalities associated with commercial STRs while continuing to allow "home-sharing" to flourish. It is the basis of numerous jurisdictions' STR regulations, including in Canada, the City of Vancouver and the Province of Québec. Actual "home-sharing" has minor impacts on housing availability and affordability, as well as decreased neighbourhood effects more typically associated with commercial operations. Commercial operations and their associated negative externalities are not suited for residential neighbourhoods; the proposed bylaws would appropriately limit the commercialization of residential neighbourhoods, ultimately reducing the social, environmental, and physical negative impacts that an influx of short-term renters may have on a neighbourhood.

## THE COMMERCIALIZATION OF RESIDENTIAL NEIGHBOURHOODS

If the displacement of tenants to make room for commercial tourist accommodations continues in residential zones, Toronto's land-use designations will be weakened. In our opinion, there is no basis in Toronto planning law for considering dedicated short-term rentals a residential land use. They are a commercial land use, and should be regulated as such.

The zoning bylaw defines a "tourist home" as a permitted residential land use (Chapter 800.50.860), but a tourist home is defined as being "in a dwelling unit which is the principal residence of the tourist home operator". Since the principal resident is not present in a dedicated short-term rental, it should not be considered analogous to a tourist home as defined by the zoning bylaw. Dedicated short-term rentals (with no principal resident present) The land-use regulations of the STR bylaws are broadly similar to those enacted by other jurisdictions in Canada, such as Vancouver and Montréal (the boroughs of Ville-Marie and

are commercial land uses despite the fact that they are rental properties. This is similar to how hotels are commercial land uses, even though they are also offered as definite-term rentals. (As a commercial use, hotels are permitted in the CR and CRE zones, but not the R zone.)

By contrast, part-time "home-sharing" arrangements, which are very common in Toronto even if they do not earn a large portion of STR platform revenues, are effectively a residential use, and are thus a broadly appropriate land use across a range of residential neighbourhood types. But commercial STRs, of which there are also many in Toronto, are a commercial land use, and their appropriateness thus varies across neighbourhood types.

Plateau-Mont-Royal), where home sharing is generally allowed in municipal areas zoned as residential, but commercial STR operations are disallowed in these areas.



## 4. The economic impacts of short-term rentals

### THE UNEVEN DISTRIBUTION OF ECONOMIC IMPACTS

The economic benefits of STR accrue above all to their hosts, who may or may not live in the same neighbourhood as the listing. By contrast, locals bear the brunt of the negative externalities associated with living next to commercial STRs, but receive few benefits (Smith, 2018).

While some businesses may benefit from increased tourist presence in residential neighbourhoods, the long-term sustainability of this pattern is questionable. Shorter visitor stays (2-5 days) have been shown to cause concentrated economic impacts in specific tourist focused industries, as opposed to the balanced economic development characteristic of liveable neighbourhoods (Kreag, 2001). If long-term residents of STR-dominated neighbourhoods are in fact displaced to make room for tourists, then the businesses in these neighbourhoods become dependent on the fickle flow of revenue from tourists, which fluctuates seasonally. Businesses relying on residents (and that residents in turn rely on) may falter. The new STR bylaws will allow tourist dollars to flow into communities that host part-time STRs, but at a more sustainable rate that does not come at the expense of long-term residents.

Furthermore, evidence suggests that STR operations have negative impacts on social, economic and racial equity. The revenue generated from short-term rentals is unevenly distributed not only across neighbourhoods, but also between hosts within neighbourhoods. A study of Airbnb hosts in predominantly Black neighbourhoods in New York City found that 74% of Airbnb hosts in these neighbourhoods were white, despite the overall population being only 14% white (Cox, 2017). Additionally, the loss of housing due to Airbnb was six times more likely to

affect Black residents (Cox, 2017). Commercial short-term rental operations do not equitably distribute benefits to equity-seeking groups, but rather, often affect these groups adversely.

One question that is sometimes raised about the economic impacts of short-term rentals is whether homeowners with secondary suites might decide not to offer their suites for long-term rentals if they are not allowed to offer them as short-term rentals. In our opinion this is not a serious concern. The economics of property ownership are clear: on aggregate, properties with secondary suites will be purchased by actors who expect to receive economic returns commensurate with the additional costs, either because they have extended family members to live in the secondary unit or because they plan to rent the unit to help with mortgage payments. When a unit with a secondary suite comes up for sale, potential buyers who do not want a secondary suite will be outbid by buyers who do want one. Even if there are idiosyncratic exceptions to this pattern, these exceptions should not be the basis of housing policy decisions for the entire city.

The STR bylaws would allow STR operations in Toronto to continue in a positive-sum way, encouraging home-sharing while providing regulatory certainty for both STRs and traditional accommodation providers. The largest aggregate economic impact of the bylaws will almost certainly be felt through housing availability and affordability. Access to affordable housing is essential for the social and economic well-being of Torontonians. The bylaws will help preserve housing supply and allow for growth and development in the appropriate places by preventing the commercialization of residential neighbourhoods.



## THE EFFECT OF SHORT-TERM RENTALS ON THE TOURISM INDUSTRY

With regard to whether STRs directly compete with and take business from the traditional hotel industry, the scholarly evidence is mixed. STRs are usually portrayed as disruptive to the hotel industry (Guttentag, 2015), but research suggests a limited negative impact on hotel revenues (Neeser, 2015; Coyle & Yu-Cheong Yeung, 2016). Zervas et al (2017) found that in the markets with the largest numbers of STRs in Texas, an 8-10% increase in STR listings led to a 0.39% reduction in monthly hotel revenue. This effect is modest, but is more significant when the low startup costs and resulting supply-side flexibility of STRs are considered, implying the potential for STRs to disrupt the hotel industry faster than the traditionally-regulated industry

can adapt. The impact of STRs on hotels is greater in cities with larger STR markets (Neeser, 2015; Zervas, et al., 2017) such as Toronto, and budget hotel providers are the most affected (Koh & King, 2017; Zervas, et al., 2017).

An analysis of the substitutability of tourist accommodations by Guttentag (2016) found that in the absence of online peer-to-peer STR platforms, 90% of recent Airbnb users would have stayed in an alternative paid accommodation such as a hotel, motel or traditional bed and breakfast, rather than foregoing travel. It is unlikely that many tourists to Toronto will forego their travel with fewer STR options available. However, STRs would continue

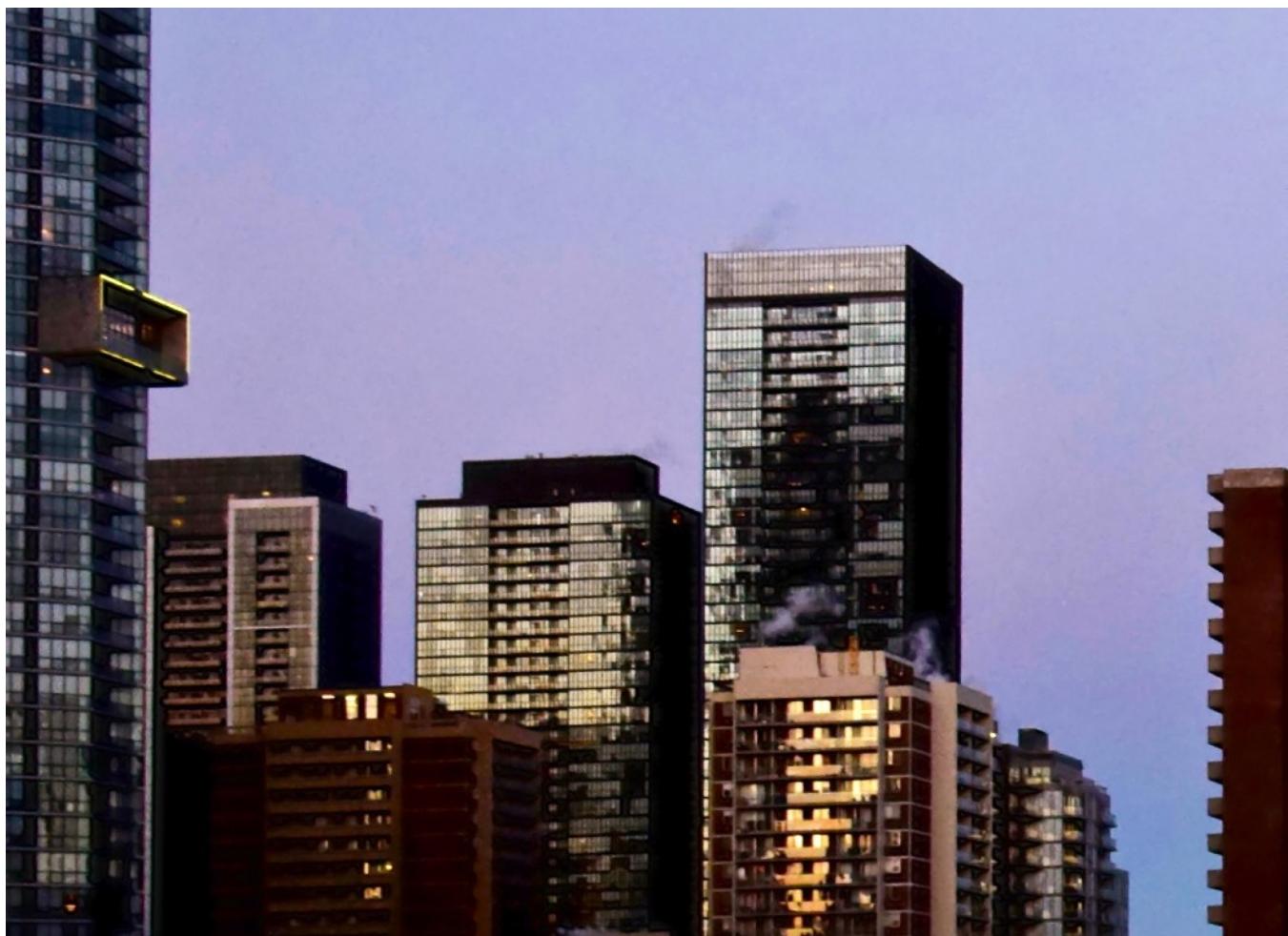
to be offered in large quantities under the proposed bylaws. It is simply one segment of this offering—non-resident commercial operations—which would be precluded. The identified need

for tourist accommodations which STRs meet would continue to be met, but in a way which does not threaten housing availability and affordability for long-term residents.

## THE PLATFORM ECONOMY AS A PRECARIOUS JOB MARKET

Though commercial STR operations may create new employment opportunities, these opportunities ought to be balanced against the negative economic impacts of the operations. A study by Samaan (2015) argues that the STR industry has cost jobs in the hotel industry, while the jobs created within the STR industry are often precarious, at reduced wages, and exploitative. In Los Angeles, Samaan estimated that \$54 million were lost in wages in the domestic industry in one year due to Airbnb, alongside an

increased likelihood of mistreatment and poor work conditions due to the casualization of this labour. The jobs created do not diversify the economic base, as the fundamental concept of the industry parallels that of the traditional hotel, but often without the employment benefits and union-eligibility available to many hotel employees. An exploitative, underpaid, and unregulated employment landscape is not sustainable economic development, nor will it meet long-term needs.



## 5. Conclusion: Regulating short-term rentals is good planning

The new STR bylaws are consistent with overarching provincial policies, including the Planning Act and the Provincial Policy Statement, and with the City of Toronto's Official Plan. Moreover, the new STR bylaws are good planning because they contain provisions to facilitate their own enforcement. Currently, the unregulated market has enabled unpredictable growth, and high levels of concentration which makes effective, good planning difficult. By licensing all STRs, the City will have access to crucial information in regard to planning for the short-term rental sector.

Good planning should act in the public interest. By supporting housing security, protecting existing rental stock, and regulating the use of new construction in a housing market with an extremely low 1.1% rental vacancy rate, the STR bylaws very clearly advance housing availability and affordability. Additionally, the bylaws protect the character of Toronto's unique residential neighbourhoods, supporting community cohesion and capital. The proposed regulations reduce

economic precarity, increase future planning capacity through collection of licensing and other data on STRs, and allow for the streamlining of planning efforts towards a future consistent with the City's Official Plan and the public's interest.

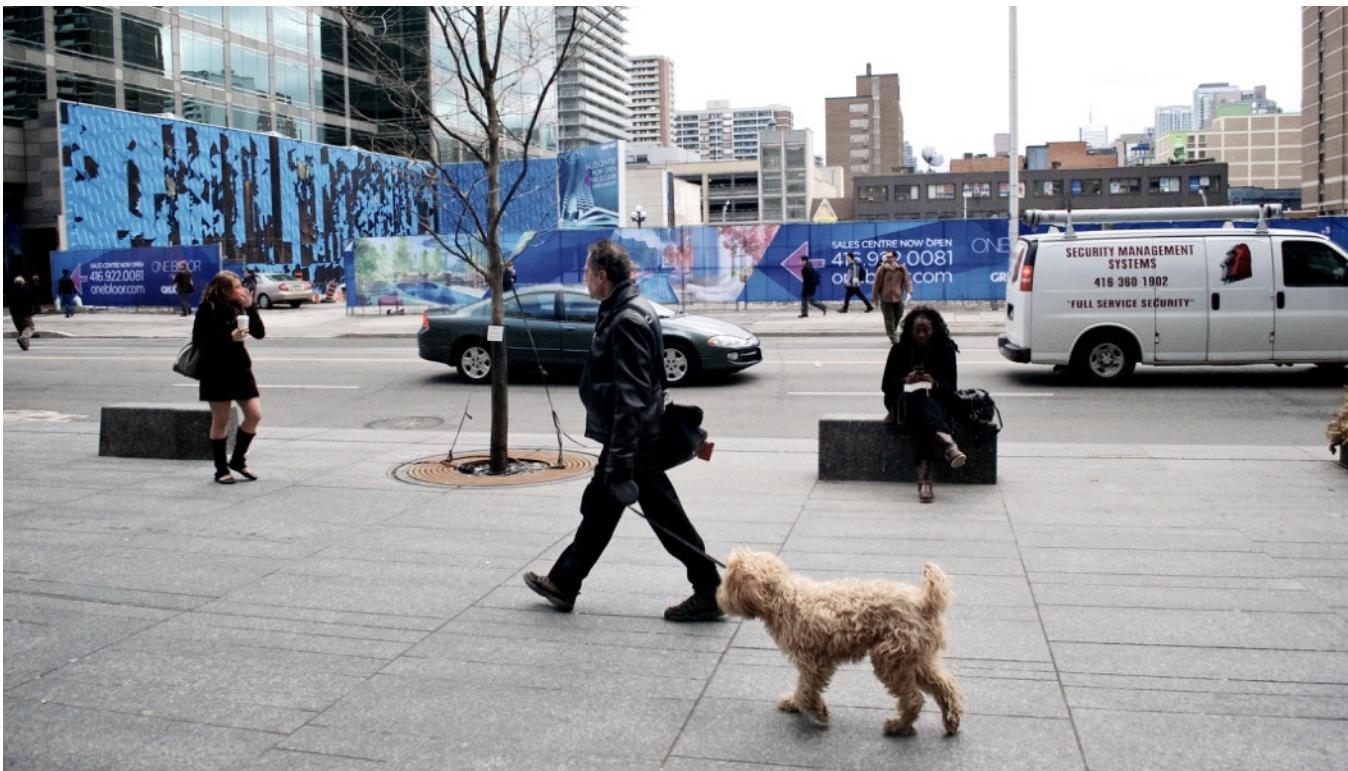
The short-term rental bylaws represent good planning and should be fully upheld by the LPAT. The bylaws should be implemented as passed by Toronto council. Any amendments, particularly to the principal residence requirement, are not desirable. This requirement is central to the efficacy of the STR bylaws, and needs to be preserved if they are to achieve their intended effects. The STR bylaws strengthen Toronto's land-use planning system and are an appropriate use of the decision-making authority of Toronto's municipal council in planning and allowing the City to prioritize the use of its existing long-term rental housing supply for Toronto residents. Against the backdrop of Toronto's affordable housing crisis, the STR bylaws will help prevent the continuing conversion of long-term housing into short-term rentals and should be upheld.



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## ABOUT UPGO

UPGo, the Urban Politics and Governance research group at McGill University, conducts rigorous, public-interest research into pressing urban governance problems—particularly those that exceed or challenge city boundaries. UPGo has published numerous peer-reviewed journal articles and policy reports on Short-term rentals in cities in Canada and around the world, including “Short-term rentals in Canada: Uneven growth, uneven impacts” and “The high cost of short-term rentals in New York City”. UPGo is led by Prof. David Wachsmuth, the Canada Research Chair in Urban Governance at McGill University’s School of Urban Planning, and is online at [upgo.lab.mcgill.ca](http://upgo.lab.mcgill.ca).



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