

## SHORT TERM RENTALS

### Summary

This policy describes the negative impacts of Short Term Rentals felt across a multiplicity of stakeholders (governments, accommodation providers, destination marketing organizations and residents (long and short-term) and suggests that government intervention is required to resolve these issues.

### Background

Short Term Rentals (STRs) are part of the rapidly growing ‘sharing’ economy which, in reality is part of the informal or underground economy where both the activities and the income derived from those activities are undertaken outside government’s control (e.g., regulation, taxation).

Online and mobile technological innovations have opened opportunities as a result of consumers’ increasing willingness to try and trust new digital platforms allowing brands such as Airbnb<sup>1</sup>, HomeAway/VRBO<sup>2</sup> and OneFineStay<sup>3</sup> to quickly scale up. Consumer trust in these brands has developed as a result of personal recommendations from friends and family and also as a result of the use of bilateral peer evaluation methods (e.g., consumer can rate service provider / service provider can rate consumer)<sup>4</sup>. The trust is not based on security offered by government regulations, but rather by branding that drives strong emotional connections – one that makes consumers feel like they are part of a community, that deeper social interactions are forged as a result of their choices. Research shows that once trust has been built, the key driver behind consumers’ willingness to purchase services from these online platforms is ‘affordability’.

For the purposes of this policy review, Airbnb is used as an example because it is the biggest online marketplace for vacation rentals. Airbnb was valued in 2016 at \$30 billion – 30% more than the world’s biggest hotel company (Hilton)<sup>5</sup>. Airbnb earnings are raised from service fee charges to hosts and guests on every booking. Their website suggests they have 2,000,000+ listings in 34,000+cities worldwide and that 60,000,000+ consumers have purchased accommodation through Airbnb<sup>6</sup>. Their economic impact is massive at every level.

As with everything, there are pros and cons with unregulated STRs. Consumers benefit from access to a centralized listing of accommodations, through increased choice in and availability of

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<sup>1</sup> <http://www.airbnb.ca>

<sup>2</sup> <http://www.vrbo.com/>

<sup>3</sup> <https://www.onefinestay.com/>

<sup>4</sup> Other examples of digital platforms connecting consumers with short term rental providers includes: CouchSurfing, FlipKey, and Premiere

<sup>5</sup> <https://www.bloomberg.com/news/articles/2016-07-11/airbnb-faces-growing-pains-as-it-passes-100-million-users>

<sup>6</sup> <https://www.airbnbn.ca/about/about-us>

places to stay and cost savings. Private hosts benefit from new income earned by renting out unused space.

However, the business community and local governments are increasingly concerned about the growing, unregulated and untaxed competition with STRs. Private homeowners offering STRs are not subject to comparable commercial regulations and often do not register to pay provincial or municipal taxes. Currently, regulations require commercial accommodation service providers (e.g., hotels, motels, B&B) to comply with standard regulations (e.g., housekeeping standards, safety, HR). STR rental properties are not included in these regulations. Even if regulations were developed, and in the absence of a requirement to register with government, identifying STR property owners will be burdensome to governments as information about hosts (e.g., names, addresses, income) is not provided to government authorities by companies such as Airbnb.

The difference in the requirement to collect and remit taxes (Provincial - 8%, Municipal and Regional District Tax (MRDT) - 2-3%, Property – varies with community) further raises the hospitality sector's concerns. With respect to provincial taxes, Section 78(1) b of the Provincial Sales Tax Exemption and Refund Regulation of BC's *Provincial Sales Tax Act*<sup>7</sup> states that "accommodation that is provided by a person who offers fewer than 4 units of accommodation" (which includes most STRs) are exempt from paying tax. Some have suggested this regulation be rescinded to include all accommodation providers of 1 room and up to register and collect the appropriate taxes. However this raises concerns with BC's Destination Marketing Organizations (DMOs) which rely on funding collected through the MRDT as current regulations require the minimum required level of support is at least 51% of the accommodation providers representing at least 51% of the total number of units of accommodation offered by those accommodation providers in the designated accommodation area. DMOs worry that smaller accommodation providers would not voluntarily join the DMO (i.e., because it would increase small operator's administrative burden and expenses and they can free-ride from benefits provided by DMO). Several have suggested that Airbnb collect and remit applicable sales tax on behalf of the host, but others suggest the tax liability should always stay with the host. Others suggest that the online platforms be taxed instead, but because they are an intermediary online platform company, they cannot be taxed as a hospitality business. Another element of unfair competition is found in the difference in property taxes; STRs are most often subject to lower residential property taxes, rather than the higher commercial property tax rates paid by the regulated accommodation sector.

In addition, STRs also impact the broader community through reduced availability of rental accommodation, affordable housing<sup>8</sup> and disruptive changes to neighbourhoods. Over the past

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<sup>7</sup> [http://www.bclaws.ca/civix/document/LOC/loo95/loo95/--%20P%20--/Provincial%20Sales%20Tax%20Act%20\[SBC%202012\]%20c.%2035/12\\_97\\_2013%20-%20Provincial%20Sales%20Tax%20Exemption%20and%20Refund%20Regulation/97\\_2013\\_04.xml](http://www.bclaws.ca/civix/document/LOC/loo95/loo95/--%20P%20--/Provincial%20Sales%20Tax%20Act%20[SBC%202012]%20c.%2035/12_97_2013%20-%20Provincial%20Sales%20Tax%20Exemption%20and%20Refund%20Regulation/97_2013_04.xml)

<sup>8</sup> This is particularly impactful on destinations that need short-term accommodation for seasonal workers.

several years, BC's communities and regions have seen a rapid loss of affordable monthly rental housing as landlords switch from longer term (monthly) to nightly rentals. This has indirectly contributed to rent increases, reduced availability of affordable housing for families and workers, and made it difficult for destinations (e.g., Kelowna, Sun Peaks Resort) to attract and house skilled workers, particularly during high demand visitor periods.

### **Conclusion**

The problems with STRs are complex and multi-faceted. Communities and governments are grappling with how to resolve the issues with STRs in a way that benefits businesses and addresses community related issues.

### **THE CHAMBER RECOMMENDS**

That the Provincial Government:

1. work with affected stakeholders (e.g., STR landlords, communities, DMOs, local and provincial governments) to clearly articulate the issues and explore resolution options;
2. change Tax Regulation 78(1) b to ensure STR providers register and collect the appropriate taxes; and
3. provide local governments with timely access to a list of registered properties so they can better regulate registered and unregistered STRs.

*Submitted by Hotel 540*