

Condo rentals put squeeze on Victoria hotels

Victoria developer heralds project as fractional-ownership and construction firsts for Canada

BY CARLA WILSON, TIMES COLONIST May 7, 2010



Downtown hotels are now sharing tourists with condo developments

Photograph by: Bruce Stotesbury, timescolonist.com

When Saskatchewan tourists Martin and Monica Castle visited Victoria last month, they checked into a condominium -- not a hotel.

In fact, there were so many condos and websites promoting vacation rentals in the city "we got a bit choosy," said the Regina couple.

They found a high-rise unit with views and close to attractions -- not to mention the comforts of home like laundry, kitchen, parking -- for \$120 a night, which is on par or better than some of the hotels in the downtown core.

Condo vacation rentals are nothing new, but the recent building boom has brought hundreds of new units to the market and an increasing alternative to hotels for tourists.

Hoteliers and tourism officials say it's a "troubling trend" in an industry beaten down by the recession and a series of jolts since 9/11 that has included currency fluctuations, passport issues and disease outbreaks.

Hotel occupancy levels have been slipping for years and room revenues hit a five-year low of \$308 million last year on Vancouver Island, according to B.C. government statistics.

This year, it's the strong Canadian dollar that will keep many Americans at home and Canadians heading south. More empty hotel rooms doesn't help the situation, say industry watchers.

In the downtown core, more than 95 per cent of condominiums permit transient accommodation under city zoning rules. Condo owners, however, do have to comply with rules of their strata corporations which may limit or ban rentals.

One website advertising vacation rentals in the capital region has more than 140 listings at rates competitive with Victoria hotels.

According to city hall, 96 business licenses have been issued to condo owners renting for vacation use, but the actual number of rentals may be much higher.

After living in his one-bedroom downtown condominium for two years, Mike Russell plans on putting his 650-square-foot unit on the vacation market this spring.

It looks like his unit will be rented most of May and June. He recently got a booking from by a New York resident.

Other units in his downtown building are used for vacation rentals, said Russell. He's already checked with the strata council to ensure he's complying with its rules. He's also taken out a business license, updated his insurance and is using vacation rental agencies to market the unit and deal with guests.

Hoteliers say the condo construction boom pushed numbers higher.

"The volume is huge ... it has grown significantly," said Ian Powell, general manager of the Inn at Laurel Point, one of the region's higher-end hotels.

Hoteliers say their properties pay hotel tax, and that hotels are zoned for commercial use, which has a higher property tax levy than residential.

"I can't complain if [hotel] competition comes into town, right? That's fair game," said Powell, who believes the private home rentals make the playing field uneven.

"It's wrong. It is absolutely wrong," Powell said. "I think anything like this is a draining away of business in an unfair way."

B.C. hotels collect an eight per cent room tax, and some areas, such as Victoria, have an additional two per cent, used by the tourism sector for destination marketing. Vacation rental owners not paying those taxes get the benefit from tourism promotions, Powell said.

Under provincial guidelines, the hotel room tax does not apply to operators renting fewer than four units. But it doesn't appear that there is any organization keeping track of the numbers of condos offered as vacation rentals or monitoring them in a comprehensive way.

Reid James, manager of the Hotel Grand Pacific and a Vancouver Island representative on the B.C. Hotel Association board of directors, said the hotel association has contacted the City of Victoria more than once about its concerns. "It is not new," said James. "How much of it goes on I don't know, because it is really hard to police."

Some capital region hotels were built with a home-ownership component, such as the 126-unit Parkside Victoria Resort, which offers condo buyers fractional ownership.

Parkside is within the zoning area allowing transient accommodation. Others include the Oswego Hotel in James Bay and the Victoria Regent Waterfront Hotel and Suites on Wharf Street.

Parkside director Jim Pearson said his facility has always paid hotel tax and shares Powell's views about vacation rentals.

A \$105 business license is required if a unit is being rented for transient stays, because they are revenue properties, said Katie Josephson, the city's director of corporation communications. If a condo owner is renting for vacation use and the zoning does not allow it, a fine of \$100 per day is imposed, she said.

The city logs about 10 complaints a year and has discussed the issue with hotels, Josephson said.

Victor Wang, spokesman for Home Away, a Texas-based web company offering 80,000 properties for rent worldwide, said owners are urged to check on local rules and regulations. Home Away operates as a marketplace bringing homeowners and travellers together and the onus is on the owner to follow local rules, he said.

B.C. Assessment does not keep track of all the private condo units rented by individuals, said Chris Sturrock, senior appraiser in the capital assessment region.

The actual assessed valuation is the same for a condo unit, however it is used, Sturrock said.

"Strata lots which meet certain criteria will receive split classification based on the number of days the unit was rented between July 1 and June 30 each year," said Sturrock, citing the Oswego as one example.

Some condos used for vacation rentals prior to October 2007 are grandfathered under a residential classification, providing they continue to meet certain criteria annually, he said.

Frank Bourree, tourism consultant with Chemistry Consulting, said hotel occupancy will be flat or negative compared with last year. And he doesn't see much positive on the horizon, especially with the strength of the Canadian dollar.

Still, he doesn't view condo rentals as digging the knife much deeper. "I don't think it is impacting the industry, the hotel, or bed- and-breakfast industry, to any dramatic degree here at all. I think there's a lot of people sort of skirting the property tax issue that really need to be careful."

However, Tourism Victoria chief executive Rob Gialloreto called vacation rentals a "growing, troubling trend."

"Their ability to really use their asset, which is the condo, to make money and accommodate guests in Victoria, without fitting into our current system is difficult and so I think it impacts our hotel business, which is one of the many lifebloods that we have here."

The city of Victoria "has to take a good hard look" at how condos are being used, said Gialloreto. "We should start working together toward some solution."

Ralph Libby of Megson FitzPatrick Insurance Services said condo owners planning to rent should consult an insurance broker because rates paid on condo insurance are based on the idea that it's owner occupied. She said it costs about \$300 extra per year to cover a unit for

short-term rentals.

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SO YOU WANT TO RENT YOUR CONDO?

Some points from the Strata Council Association of B.C.:

- Landlords, owners and their agents thinking of renting must comply with bylaws and rules of the strata corporation, including rules for parking spaces and using common facilities.
- A strata corporation may have a bylaw prohibiting or limiting rentals. Restrictions can refer to a specific number of units, or a percentage of the total number of units in a building.
- Even if there is no bylaw against rentals, you must give the corporation a special form outlining tenants' responsibilities.
- Some strata corporations have an age restriction bylaw.
- Contact your council in writing asking permission to rent.
- If you rent a unit in violation of a strata corporation's rules, you face a fine of up to \$500 per week.
- Landlords and owners of strata lots could be 100 per cent responsible for any costs relations to tenant activities or bylaw violations over issues such as noise.
- Owners may also be responsible for any losses resulting from tenants or their guests if there is damage to common property, assets, or any insurance deductible costs.
- If your renter or guest floods the units, causes a fire or damages the building, you could face an insurance deductible of \$2,500 to \$100,000, depending on your strata policy.
- Have a written agreement with the tenant and a reasonable damage deposit to cover any claims.

On the Web: www.choa.bc.ca/

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