SKYVIEWSUITES

From: **Sky View Suites**

Re: **Planning and Housing Committee Agenda Item 2024.PH11.9**
Toronto Medium Term Rental ("MTR") Market Considerations

Date: **April 3, 2024**

Further to recommendations recently released by the Executive Director of Municipal Licensing and Standards for consideration by the Planning and Housing Committee during their upcoming April 5, 2024 meeting, Sky View Suites has prepared this statement as a potential supplement to the discussion.

Background / Introduction

While Corporate Housing / MTRs comprise a small section of the residential rental market in Toronto, the impact is substantial to local communities and the needs of the tenants we serve. Our industry provides indispensable accommodations for various groups, including individuals with medical needs seeking proximity to healthcare facilities in Toronto, Canadian families undergoing relocation, locals requiring temporary housing due to unforeseen circumstances / insurance events, and immigrants looking to get their footing before deciding on more permanent housing.

During the COVID-19 pandemic, the corporate housing industry was critical in providing safe and reliable accommodations to those in need (including first responders and healthcare professionals).

As industry experts and members of the CHPA, we are keen to share our data, insights and discuss ways in which we can collaborate to ensure that MTRs continue to serve the city and its residents effectively.

Our comments below focus on certain sections of the McGill University report (which we understand forms part of the basis for the Executive Director's recommendations) related specifically to MTRs. Our goal is to provide the City and other interested stakeholders with the following information:

- Complementary explanations as to why the McGill research indicates certain trends in MTRs
- Industry knowledge regarding the size of the MTR market in Toronto
- Additional context to provide a clearer understanding of the impact of MTRs on LTR housing supply
- Expert insights into other areas where the McGill report may have gaps in data

We are available to answer questions, engage with City staff and / or McGill researchers, or provide additional information at your request.

Executive Summary

- Our own experience agrees with the report's indications that the City's enforcement efforts and regulations are working as intended in respect of increasing the LTR housing supply.

- Challenges with "true" MTR measurement (including overlap with STRs driven by recent regulatory actions) resulted in significant overestimation of the MTR market in the report. We believe the actual impact of MTRs on LTR housing supply is even lower than that indicated by the report.

- Demand for MTRs remains relatively unchanged from pre-covid years. The actual size of the MTR market in Toronto is roughly 2,000 – 2,500 units. There is not now (and never was) enough demand for MTRs to sustain the magnitude of units / supply figures estimated in the report.

Overlap Between MTR and LTR Markets and Definitions

In many ways, MTRs and LTRs are very similar and difficult to distinguish. The McGill report does acknowledge this, and the researchers have done their best to try to define an MTR. On page 6 of the McGill report, they state:

> *"Unlike short-term rentals, medium-term rentals have no official definition in City policy, but in practical usage the term implies a rental which is neither an STR nor a traditional, indefinite-length long-term rental."*
>
> *"In the following analysis, we define MTRs loosely as rental agreements for periods of time of at least 28 days but less than one year, which could occur either in the landlord's principal residence or in a dedicated MTR dwelling unit."*

Because it is impossible to know how long a month-to-month tenant ends up staying in a unit, these definitions implicitly include a number of LTRs that operate on a month-to-month basis. While this number might be small in comparison to total LTR inventory, it is large relative to actual MTR inventory, and therefore generates significantly skewed estimates of the actual size of the MTR market in Toronto.

It is also important to note that LTRs are not excluded from listing on Airbnb. A growing number of ex-STR providers who are legitimately trying to operate their units as MTRs or month-to-month LTRs prefer to continue using Airbnb as a listing platform because of features like tenant vetting, real-time dispute mediation, insurance coverage, payment processing, etc.

Understandably, the familiarity of Airbnb is more attractive than the risks associated with "traditional" LTR tenancies, which landlords perceive as leaving them at the mercy of unscrupulous tenants, squatters and an unfair / bureaucratic LTB. Conversely, some LTR tenants also prefer using Airbnb for similar reasons (e.g. the flexibility of being able to go month to month, being able to pay with a credit card, etc.)

Therefore, an alternative approach would be to simply define MTRs as a subset of LTRs that allow for additional flexibility in rental periods AND provide some level of additional services (such as utilities, TV/phone/internet, furnishings, etc).

Having said that, it is important to note that the presence of furnishings (or other "extras" mentioned above) by itself does not necessarily indicate a MTR. Page 33 of the McGill report states:

"Across both Craigslist and Kijiji, 54.4% of matched listings were advertised as furnished rentals, which implies a high level of MTR as opposed to LTR activity among properties exiting the STR market."

Automatically categorizing furnished rental offerings as MTRs would also incorrectly increase the perceived size of the MTR market.

Magnitude and Recent Trends in the MTR market

We agree with the McGill report's indications that recent sharp increases and volatility in the number of MTR listings are correlated with STR regulation enforcement drives. For example:

- The graph on page 8 of the report indicates a sharp rise in MTR listings after regulation release
- On page 16, the report states: *"The figure makes it clear that, prior to Airbnb's forced conversion of 8,400 STR listings to minimum 28-night stays, MTRs were only responsible for a small fraction of activity on these platforms."*
- On page 17, the report states: "*… In other words, a very large share of the post-2020 nominal MTR supply on Airbnb and Vrbo are simply STRs which have effectively been deactivated."*

- On page 19, the report states: *" … MTRs now account for a much larger share of activity on Airbnb and Vrbo than they used to, but this fact is primarily driven by the changing regulatory environment, and Airbnb's forced conversion of 8,400 STR listings to 28-day minimums. It is therefore not possible to extrapolate from trends on Airbnb to establish broader patterns about MTR activity in Toronto."*

Furthermore, while figure 6 on page 16 of the report does recognize the significant differences between "displayed listings", "active listings" and "reserved nights", it unfortunately cannot distinguish between "reserved nights" belonging to "true" MTR stays (1 – 12 months) and "reserved nights" which end up becoming LTRs. While the latter may be small in terms of number of tenancies, by definition their number of "reserved nights" is significantly higher on a per-tenancy basis.

This bundling together of MTR and LTR data is contributing to a significant skew in the report's MTR market size estimates. Furthermore, demand for MTRs remains relatively unchanged from pre-covid figures. In other words, STR stays / vacationers who would otherwise plan to be in Toronto for only a few days or a couple of weeks are not changing their travel plans just so they can access an MTR listing.

Instead, we believe this reflects a change in the behavior of some shrewd STR operators, hoping to "mask" their STR units as MTRs and avoid having their advertisements taken down by Airbnb. These operators have found ways to redirect their potential airbnb guests to book their STRs on other platforms.

Another reason why the report significantly over-estimates of the number of MTR units in Toronto is that external researchers have several difficulties collecting useful MTR data, especially when it comes to corporate housing providers. As the McGill report states:

"The vast majority of all medium-term rental sites are third-party property management companies."

This is true, and we would also add that the vast majority of all true MTR properties in Toronto are professionally managed by these corporate housing firms that were established long before the arrival of Airbnb. Most of these firms (especially the larger ones) are members of the CHPA.

Despite Airbnb listing volatility artificially caused by recent STR regulation enforcement drives, the entire MTR / corporate housing industry in Toronto remains relatively small, and **CHPA members with decades of combined operational experience and a strong sense of the size of the MTR market agree that the entire Toronto MTR market is comprised of roughly 2,000 – 2,500 units in total.**

For example, as part of the quote above, the McGill report goes on to say that *"The sites we have encountered have a wide range of unit inventories, from fewer than ten units to more than 1,000."*

No corporate housing providers with dedicated MTR websites have anywhere near 1,000 active units in Toronto. Actually, there are only a handful of companies with more than 50 units under management, and none manage more than roughly 250 units in Toronto.

What the McGill researchers are missing here is that often times MTR providers do not take down old / defunct unit advertisements from their websites. Also, some of the key platforms reviewed by the researchers (such as thesqua.re and rentinfurnished.ca) do not actually manage or operate any inventory whatsoever. Instead, these are aggregator websites which repeat many already existing listings from true dedicated MTR websites (often with different photographs). **Moreover, some platforms go so far as to add "fake" listings / pages to their sites in order to appear bigger than they actually are (for search engine optimization purposes).**

Lastly, the methodology used to in the table on page 19 to "back out" total MTR listings from those available in the summer of 2023 for platforms such as kijiji and craigslist grossly overestimates the unique number of available MTR units in the City, for three reasons:

1) Overlap with “short-term” rental search terms (as used for kijiji and rentals.ca)
2) Overlap with LTR “furnished” rental search terms (as used for craigslist)
3) Most importantly, the roughly 11% vacancy rate calculated from corporate housing / dedicated MTR data is not far off from our experience. **However, the underlying assumption that the 11% vacancy rate also applies to non-dedicated platform listings is plainly inappropriate (by an order of magnitude) to those with experience in the MTR industry.**

MTR Business Model, Rents and Market Participant Behaviour

With respect to MTR rents, the McGill report states:

On STR and LTR platforms, MTRs consistently command lower rents than either STRs or LTRs, which conflicts with anecdotal evidence that dedicated MTR platforms offer their listings at a premium relative to long-term rentals.

It is true that MTR rents are significantly lower than STR rents. More importantly, MTR rents are (on average) slightly higher than a comparable LTRs, but over the long run (after taking into account higher vacancy and other MTR related expenses), that margin is relatively modest.

The missing piece to the anecdotal evidence mentioned in the McGill report is that on platforms which allow for negotiation (such as dedicated MTR platforms, craigslist, kijiji, etc), the only data available is the “asked” / advertised rent. **Unfortunately, McGill researchers had no line of sight to the rents that are ultimately negotiated, which (unlike LTR rents) can be significantly lower than the advertised rent.**

It is also important to understand that because of the low financial margins of MTR in comparison to LTR, individual unit owners / landlords have little incentive to stick to renting to individual MTR tenants over the long run. MTR only makes sense financially (from a provider’s perspective) when dealing with a minimum number of units (usually at least 10-20) **and working directly with other professionals and / or centralized / group clients (rather than individual retail tenants)**, such as:

- Medical program administrators / social workers
- Insurance adjustors / claims adjudicators
- Corporate and film / arts industry professionals (HR and / or procurement managers)
- International student housing co-ordinators
- Immigration consultants / real estate agents

These centralized / group clients, combined with some minimum level of scale, reduce the amount of resources a provider must dedicate in order to manage MTR tenant relationships on a per unit basis. Therefore, many ex-STR unit operators who do not have access to group MTR clients soon realize that MTR has all the trappings of the STR market (high vacancy / gaps, high-demand clients, volatility / seasonality, additional overhead costs such as utilities, furniture, etc) and little of the financial benefits. Specifically, these STR operators are learning that:

- MTR stays are price-sensitive and not willing to pay STR rents.
- The MTR market is a significantly different industry with different needs which they are not prepared to service effectively.
- Unlike STR stays which have a fixed end date, MTR stays often go month to month and end up renting significantly longer than initially planned. Most STR operators and / or unit owners are not able to offer this level of flexibility.

Essentially, while STR operators they may still advertise their units as MTRs on Airbnb because they are familiar with and trust the platform, they eventually end up taking on LTR tenants. **This leads to a seemingly high number of “active” MTR listings, but a very low actual LTR housing loss.**

This is evidenced in the McGill report on page 33, which states:

“MTR listings which are exempt from registration requirements have by far the lowest amount of rental activity—only 7.2 nights reserved on average over the first five months of 2023. “

Conclusions / Other Considerations

We agree with the McGill report that the current STR regulations have made a noticeable impact in terms of transferring a material amount of STR units to the LTR housing supply. However, while things are moving in the right direction, we would suggest that there is still room to do more when it comes to STR operators who try to “mask” their advertisements as MTRs.

Lastly, we note that part of the Executive Director’s report suggested developing *“an Application Programming Interface (API) to facilitate the secure delivery of and access to short-term rental registration data for the purposes of operator validation by licensed short-term rental companies.”*

Sky View Suites would be happy to provide assistance via our knowledge and experience in order to help the City build a more effective API.