



MEMORANDUM

To: Mary Nordstrom, Manager, Land Use Planning, Town of Innisfil

From: Tate Economic Research Inc.

Date: September 14, 2020

Re: Peer Review of FORREC Friday Harbour Resort Evaluation

The Town of Innisfil (“Town”) has requested that Tate Economic Research Inc. (“TER”) conduct a peer review of the FORREC memo titled *Friday Harbour Resort Evaluation* (“FORREC Memo”), dated August 21, 2020.

From the urban planning / municipal development approvals perspective, the FORREC Memo has been submitted to the Town as part of an application to remove unit occupancy restrictions at Friday Harbour Resort. Currently, Official Plan Amendment 17 and Zoning By-Law No. 029-05 restricts annual owner occupancy of a residential unit at Friday Harbour to a maximum of 300 days a year and 185 consecutive days. Friday Harbour is requesting that the occupancy restrictions be eliminated for existing units and future phases of the development.

TER was also provided with additional questions / issues from the Town regarding the elimination of occupancy restrictions at Friday Harbour Resort. The TER Memo is summarized in the following sections:

1. Summary of FORREC memo
2. Questions / Issues from Town
3. Conclusions

1. SUMMARY OF FORREC MEMO

The FORREC Memo states its purpose is to “...review the resort amenity offering at Friday Harbour Resort, to benchmark the offering at Friday Harbour vs. other successful resort destinations and to propose new amenities, components & strategies for future consideration.” Furthermore, the FORREC Memo states its role is to: “...observe the resort through the eyes of the guest: What will guests expect from a resort stay? What approaches have other benchmark destinations taken, both close to home and internationally.”

The FORREC Memo states: “we have put forward our opinion on two main questions:

- (PART 1 -) *Is Friday Harbour a Resort?*
- (PART 2 -) *Will the removal of the current Friday Harbour occupancy restrictions change its status as a resort?”*

PART 1 - Is Friday Harbour a Resort?

The majority of the FORREC Memo addresses this “PART 1 Question.” The Town, and TER, agree that Friday Harbour is a resort.

PART 2 - Will a Removal of Occupancy Restrictions Change its Status as a Resort?

The FORREC Memo includes a limited review of this “PART 2 Question.” The FORREC Memo states “While there are numerous aspects to this topic (Some of them beyond FORREC’s scope or area of expertise) at this early stage in our assessment we have identified one key concept that is highlighted here: the ‘bed base’ (the total amount of available accommodation in a resort) is directly related to the amount of amenities that a resort can reasonably (or profitably) offer.”

Friday Harbour does not track unit owners intentions with respect to renting out units or whether units are indeed rented out or left empty when unable to occupy

due to the restrictions. We have been advised that unit owners are encouraged to rent their units when they are not being occupied by owners. As a result, it is anticipated that the removal of the occupancy restrictions will result in a longer occupancy of the bed base by existing owners and a reduction of units made available for short-term rental.

We generally concur that more beds will result in more demand for amenities provided occupancy patterns at Friday Harbour continue to function as a recreational resort community.

The FORREC Memo states “*we do not see the need for usage caps or occupancy restrictions*”. It further states: “*occupancy restrictions may be having two impacts on the onsite population:*”

1. *Forcing units to be unoccupied (and thus not contributing to the viability of resort amenities)*
2. *Weakening demand for new units (and thus the expansion of the bed base).*

We note that the intention of the occupancy restrictions is not to be “forcing units to be unoccupied”. The occupancy restrictions are intended to discourage units from being used as primary residences. Furthermore, with respect to “weakening demand”, we note that Friday Harbour has become a successful development with these occupancy restrictions in place.

The FORREC Memo concludes:

“It is FORREC’s opinion that the current occupancy restrictions do not make Friday Harbour a resort and that their removal would not change the nature of the resort lifestyle currently on offer. Furthermore, allowing unrestricted access to current and future units should increase onsite population, thus serving to strengthen and support the menu of activities and amenities on site, and enhancing the overall success and appeal of the destination.”

The FORREC Memo also states, *“That said, the developer should be cautious of the phenomenon of ‘cold beds’ – if too many units are left occupied (cold) by their owners, then amenities can be hard to support.”* In our opinion, this statement summarizes one of the primary issues, from the perspective of the Town. The Town recognizes that amenities play an important role in the definition of Friday Harbour as a resort and has concerns about the potential impact on the ongoing viability of amenities if occupancy restrictions are modified or eliminated.

TER and the Town recognize that increasing the number of resort units at Friday Harbour should increase demand / support for the resort amenities. However, it is also noted that short-term visitors typically represent more demand / support for resort amenities (on a per diem basis) when compared to full time residents. The FORREC memo also recognizes this situation by stating: *“While permanent residents often do not engage in activities as often as overnight guests, any greater onsite population will likely support a greater offering of amenities than would otherwise be found together in Innisfil.”*

2. DISCUSSION OF TOWN QUESTIONS / ISSUES

Town staff have asked TER to explore the following key considerations in this memo:

- The potential impacts of removing the occupancy restrictions on the amenity offerings at Friday Harbour;
- Are the existing amenity offerings sufficient to support a four seasons resort function of the community; and,
- Is there a need for a short-term rental program to support the resort function of the community?

Before addressing these questions there is a key concept that has guided TER’s approach to this memo.

Based on our experience with retail market demand analysis, there is considerably more retail commercial and amenity space at Friday Harbour than would typically exist for a residential community with 2,600 units based on its resort market orientation. In other words, the amount of existing retail commercial and amenity space is not supportable by a community of 2,600 units consisting of owner-occupied units only. The viability of the proposed retail commercial space is influenced by, and somewhat dependent on, the presence of short-term visitors, who can be reasonably expected to have higher usage rates of amenities and have higher per diem spending.

Removal of Occupancy Restrictions Impact on Resort Amenity Offerings

The amenities at Friday Harbour can be classified into a number of categories, as indicated in Figure 1. The daily/weekly/monthly economic viability of some of these amenity categories is not

directly dependent on usage, as indicated in Figure 1. Some of the resort amenity offerings could remain functional without experiencing high usage levels. In drawing these conclusions, we recognize that maintenance of certain amenities is built into the resort maintenance fees charged to the unit owners.

Figure 1: Resort Amenity Function	
	Usage Dependent
Marina	✓
Conference Centre	✗
Fitness / Athletic Centre	✗
Golf Course	✓
Pool and Aquatic Space	✗
Retail Commercial Space	✓
Spa / Beauty Space	✓

Source: Tate Economic Research Inc.

Resort amenities that are dependent on usage include the marina, golf course, retail commercial space, and spa / beauty space. Since the golf course and marina are accessible to the public, its viability is not directly dependent on resort residents and visitors. While the golf course receives support from resort residents and visitors, demand generated from the larger geographic area may

be considered sufficient to support the continued operation and function of the golf course.

The viability and success of retail commercial space, as well as spa / beauty space, at Friday Harbour is reliant on resident and visitor expenditures. While the public nature of Friday Harbour allows for inflow of dollars from the day trippers and tourists from the surrounding area, the majority of spending will originate from the onsite population. Resort owners spend less dollars locally when compared to short-term visitors, on a per diem or annualized aggregate basis. As such, the viability and success of this extent of retail commercial space will be reliant on the presence of short-term rentals and the introduction of “new” dollars into the resort on a regular basis.

Based on this analysis and commentary, we conclude that a removal of occupancy restrictions with the corresponding assumption of a shift towards owner occupied units is likely to result in an impact on the resort amenities that rely on usage patterns for their viability.

Amenity Offerings Sufficient to Support Resort Function of the Community

TER was retained by the Town in 2018 to review and comment on the amount of amenity space proposed at Friday Harbour. This report was titled Friday Harbour Amenity Space Review dated May 2nd, 2018 (TER 2018 Report”). The TER 2018 Report concluded “It is the opinion of TER, despite the low amenity per unit ratio, Friday Harbour has a well-rounded amenity offering in terms of size and variation.” This opinion does not change based on the proposed removal of occupancy restrictions.

TER finds that the removal of occupancy restrictions will not result in a greater requirement or variety for additional resort amenity space or recreational amenities, provided Friday Harbour continues to function as a resort community and attracts the travelling and vacationing public.

The amount and types of amenity offerings proposed at Friday Harbour will be sufficient to support the resort function of the community. However, as noted in the previous section, the retail commercial and spa function may become less viable if there is a reduction in short-term users.

Amenity Requirement to Support Off-season Resort Function

Friday Harbour is primarily a summer focused resort with the headline attractions being the marina and golf course. The presence of amenity offerings and programming in the off-season will support the viability of the resort function on a four-season basis.

Friday Harbour has a variety of off-season amenity offerings, including fat tire biking, cross country skiing, snowshoeing, skating, and hockey. Friday Harbour has an outdoor skating rink and offers rental equipment for all the above noted activities, including skates, fat tire bikes, snowshoes, and skis.

In addition to the above noted amenities, Friday Harbour offers a variety of winter programming, such as guided excursions and activities for children such as scavenger hunts. These activities are organized by the Friday Harbour Resort Association and are supported, but not dependent on, short-term visitors.

We concur with the FORREC commentary that Friday Harbour is expanding its offerings into the off-season periods and should continue to do so. These offerings could capitalize on the large scale nature preserve component of Friday Harbour.

Need for Formal Rental System Requirements

There has been limited detailed data provided to TER about the current short-term rental market at Friday Harbour.

It is our opinion that the provision of short-term rental units is a critical success component for the retail commercial and spa / beauty space at Friday Harbour.

Indeed, short-term rentals may be considered fundamental to the definition of Friday Harbour as a resort.

The success and viability of resort communities generally relies on ensuring a sufficient number of “warm beds”, or occupied units. Warm beds generate a critical level of human ‘animation’ which is vital to sustaining the resort’s businesses, and in turn, makes the place an attractive destination for visitors.

There is not sufficient demand generated by the existing resort owners to support the proposed amount of retail commercial and spa / beauty space. The viability of retail commercial and spa / beauty space will rely on transient residents and visitors. We recognize that a hotel is contemplated at Friday Harbour and that this hotel will provide short-term users.

However, it is the opinion of TER that there should be a formalized rental program to support short-term rentals of residential units at Friday Harbour. Providing short-term rental units ensures that resort accommodations have a constant supply of “new” occupants, who in turn will spend money in the resort’s stores and restaurants and are considered more likely to partake in other activities. Short-term rentals are considered necessary to ensure there is a sufficient transient population to support the existing and proposed retail commercial and certain amenities space.

Friday Harbour Resort does not maintain corporately owned rental stock. Therefore, any rental units within Friday Harbour are privately owned. Units available for rent are offered privately by unit owners, primarily via online methods such as Airbnb or Kijiji. A potential constraint to this rental method is that it does not guarantee a minimum number of units will be available for rent. In addition, this method does not ensure there is a consistent level of units available for rent. This may result in certain seasons, or dates, having limited units, or potentially no units, available for rent.

A rental pool requirement represents a potential mechanism to ensure a minimum level of rental units are available for visitors. Units entered into the rental pool program could be made available to the general public for short or long-term rentals by a single management entity. The rental pool could be managed by Friday Harbour Resort, the Friday Harbour Resort Association, or a third-party management company. These rental units could still be advertised through the popular sites such as VRBO and Airbnb, they would just be managed through a unified party.

It is our recommendation that a supply of short-term rental units is essential to the operation of the existing and proposed retail commercial uses and amenities. As such, it is imperative to include a requirement for short-term rentals in the operation of Friday Harbour.

3. CONCLUSION

FORREC, the Town and TER all recognize that Friday Harbour is a resort. Retail commercial and resort amenities are essential components of any such resort. It is recognized that as additional resort residential units are constructed at Friday Harbour, they will provide additional support for the retail commercial space and amenities. However, it is also recognized that short-term users generally have different usage and expenditure patterns than year round residents.

Friday Harbour requires short-term rentals in order to support the existing and proposed retail commercial and resort amenities. To paraphrase a statement in the FORREC Memo, we conclude that the Town should be “*..cautious of the phenomenon of ‘cold beds’ – if too many units are left occupied (cold) by their owners, then amenities can be hard to support.*” In our opinion, this potential concern should be addressed by ensuring there is an adequate supply of short-term rental units at Friday Harbour, such as a formalized mandatory rental pool.