



# Council Report

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**Date:** November 5, 2024  
**To:** Anthony Haddad, City Manager  
**From:** Blake Laven, Director of Development Services  
**Subject:** Q3 2024 - Economic Development Update

**File No:** RMS 6750-01

## Staff Recommendation

THAT Council receive into the record the report dated November 5, 2024, titled "Q3 2024 - Economic Development Update".

## Strategic priority objective

**Vision:** Penticton is a connected, resilient and healthy waterfront city focused on safety, livability and vibrancy.

**Mission:** Penticton will serve its residents, businesses and visitors through organizational excellence, partnership and the provision of effective and community focused services.

**Livable & Accessible:** The City of Penticton will proactively plan for deliberate growth, focusing on creating an inclusive, healthy, and vibrant community.

## Background

This report provides an overview of the activities of the City's Economic Development function over the third quarter of 2024 and provides metrics pertaining to the community's overall economic health over that period. Over the summer, the trends seen in the first two quarters continued with steady growth within the development industry and similar year-over-year economic activity in the tourism sector, a sector that will be highlighted in this report.

The City over the third quarter, has continued to work with various business organizations and made progress on several economic development initiatives. Strategic communications have continued to promote the city in positive ways for both future residents and for people looking to invest in the community.

## *Tourism overview*

As summer approached, there was uncertainty over how the current economic conditions as well as the impact that the new short-term rental regulations—specifically, the prohibition of rentals where the primary resident does not reside on the property - would have on tourism. Certainly, with regard to short term rentals

stayers and overall visitors to the area, there was a small decline in 2024. However, initial data from Q3 reveals that the traditional hotel tourism has maintained consistent year-over-year activity, aligning fairly closely with 2023 numbers. The following graph shows the vacancy rates in the City's 'reporting' hotels over the year in comparison to previous years. While some numbers are down a bit, the overall vacancy rates are on par with 5 year averages (within 5%), but still trending below the pre-COVID levels:

	Q1	Q2	Q3 (summer)	Q4
2024**	30%	52%	69%*	
2023	35%	59%	66%	32%
2022	32%	58%	76%	34%
2021**	27%	35%	69%	34%
2020	29%	18%	73%	23%
2019	32%	61%	73%	37%

\* Estimate made for September as no data yet available as of the writing of this report  
 \*\* New hotels added from year before, impacting vacancy comparison

Table 1: Penticton hotel vacancy per quarter 2019-2024, amongst reporting hotels (Travel Penticton)

As a reminder two new hotels were constructed in the community recently, which impact overall vacancy rates. The Fairfield Hotel on Eckhardt Avenue, with 98 rooms, was open for occupancy during the summer of 2020, impacting 2021 vacancy. The Four Points by Marriot was opened in January 2024 and has 121 rooms. And while the vacancy rate data does show consistency, it also shows room for additional visitors and highlights the need to hold events and promote the community to bring those vacancy rates closer to full occupancy. While the City is not directly responsible for destination marketing, we work closely with Travel Penticton and support and amplify their strategies with the goal of increasing vacancy rates.

The following table shows the estimated number of visitors staying in reporting hotels over the same period as the previous table:

	Q1	Q2	Q3 (summer)	Q4
2024	129k	218K	280K*	
2023	149K	249K	277K	134K
2022	132K	237K	313K	136K
2021	111K	142K	286K	139K
2020	113K	70K	295K	97K
2019	125k	237K	289K	145K

\* Estimate made for September as no data yet available as of the writing of this report

Table 2: Estimated number of visitors staying in Penticton hotels by quarter, by year (Travel Penticton)

Adding to these numbers we also have data on the Municipal and Regional District Tax (MRDT), a 3% tax collected on hotel stays that is dedicated to destination marketing. The MRDT revenue data mirrors the trends seen with similar year-over-year numbers. MRDT revenue data through July is down only slightly (less than 1%) from the same period in 2023. The MRDT was increased from 2% to 3% after 2022, so comparison between the MRDT revenue from any time prior to then is not instructive.

### *Conferences and conventions*

Conferences and other multi-day conventions have been a focus of Travel Penticton and their *Meet in Penticton* convention bureau and have been attracting professional and other organizations to the city at a higher rate than in previous years. Multi day association conventions are the most desirable events to host as they can bring between 200 and 600 delegates to the community, generally in the shoulder seasons, filling up local hotel rooms and supporting local businesses at times of year when they are generally slower.

Data for the PTCC usage shows a significant trend up with over 200 events held to date at the facility. Numbers for 2022 were 199 for the entire year and 239 for 2023. 2024 is expected to surpass this number significantly and bookings for 2025 also show promise. Large multi day conventions are also expected to be the highest number in the past decade in 2024 with 14 either having occurred or planned to occur in 2024 (the average over the past decade is only 9 per year). While we don't have ready data available from the other convention center (Lakeside Resort) the assumption is that that facility also saw an uptick in events. These events are significant to make up for any loss in other forms of tourism, particularly as conference guests tend to stay in hotels and tend to spend more per person than other visitors.

### *Retail and food and beverage*

What we do not have, however, is retail or food and beverage revenue numbers. Anecdotally, in discussions with tourism service providers and tourism focused retail, food and beverage, guests are spending less than in previous years, due to the economic conditions and high inflation seen over the past 2 years. So while we may have a similar number of visitors to the community as previous years, the average spend per person may be lower, impacting these businesses.

### *Short term rentals*

Regarding the short-term rental situation, the full effects of the regulatory changes implemented in May 2024 have yet to be fully realized this summer. The City has been assessing existing licenses to ensure compliance with the new principal residency requirement. As a result, several former short-term rentals have either been sold to long-term residents or converted to long-term tenancies. However, many new compliant short-term rental licenses have also been issued. As the provincial 'compliance and enforcement unit (CEU) and the provincial registry gets up and running towards the end of this year, we expect a higher level of compliance.

Currently, the City has 324 short term rental licenses issued (down from a high of 398 in mid 2023). Similar to MRDT the City collects a 3% tax on all on-line accommodation stays in the community. The on-line accommodation platform (OAP) revenue for 2024 is down close to 30% for the year, suggesting less people staying in short term rentals but also that the types of short term rentals that people are staying in has changed. For example, under the new rules 'whole house' short term rentals, which are likely the most revenue generating (per night), are the type most targeted by the new restrictions and secondary suites, with less revenue generating nightly stays, are still permitted. According to Airdna, a third party website service subscribed to by the City, the average nightly price for a short term rental in Penticton has declined 9% over the past year to an average of \$306 a night. Occupancy rates are at 56% which is similar to what were seen in previous years.

Given the importance of short term rentals to the overall tourism economy (close to 30% of all tourism spending is from people staying in short term rentals), the City will continue to monitor the situation closely.

## Summary

Travel Penticton has not released their 3<sup>rd</sup> quarter report yet, but they continue to support the tourism industry through marketing and promotions, media development, digital and on-line promotions, event and marketing support and sponsorships and the above mentioned Meet in Penticton service. Travel Penticton also manages the City's visitor centers - on Westminster Avenue year round and at the Peach on Okanagan Lake during the summer (May – August). Travel also collects and publishes detailed metrics on tourism to the community.

Conclusions of these numbers suggest that the City and tourism partners need to continue supporting events and conferences to ensure higher occupancy year round and attract people from other regions to support tourism related businesses. While the 2024 summer was generally on par with recent summers, in speaking with most tourism industry partners, more needs to be done to ensure higher occupancy rates and increase overall the number of visitors for 2025 and beyond.

## Planning and Development

Construction starts in Penticton through the summer have been strong with three notable projects that have been in the works for several years breaking ground: 123 Front Street (5 storey, 46 unit rental apartment with ground floor commercial), 286 Rigsby Street (5 storeys, 48 units) and 602 Main Street (5 storey, 36 unit rental apartment with ground floor commercial).

As of the end of the third quarter, the total number of building permits issued in 2024 is trending slightly ahead of 2023, with 490 permits issued this year versus 469 last year. However, this figure remains below the five-year average of 561 permits through Q3. Notably, the value of construction has risen significantly both year-over-year and compared to the five-year average. A substantial portion of these permits represent new housing units (260 new units). At the current pace, this aligns well with the minimum annual housing requirement identified in the latest housing needs assessment, which estimates a need for 218 units per year.

The following table shows the construction value year to date data and new housing units comparing 2024 to 2023 and the 5 year average:

Year	Construction value	Number of housing units approved for construction
2024 through Q3	\$157 million	260
2023 through Q3	\$81 million	140
5 year average through Q3 (2020-2024)	\$123 million	292

*Table 3: Building permit data ytd 2024, 2023 and 5 year average (City of Penticton Building Department)*

In addition to the building permit data, which reflects current construction, examining the issuance of development permits provides valuable insight into future housing starts. Through the third quarter of 2024, Council and the City's Development Officer have issued development permits for 345 housing units, a significant increase compared to 224 units approved during the same period in 2023. This positive trend indicates a robust pipeline of housing development on the horizon, as development permits generally lead to building permits within a few months. The majority of the 345 units are for infill style town housing, duplex and triplex projects and smaller apartment building, but also include larger projects, such as approval of new student housing on the college (89 units) and the first of several buildings within the Innovation District (100+

units). Activity is represented throughout the community, from the college precinct, to the Innovation District, to the downtown, to the Skaha end of the city.

### *Housing Policy Work*

Despite strong development numbers around housing, housing affordability still remains a major obstacle for the economic health of the community and work continues to address affordability through several means. Focus remains on implementing the recommendations from the OCP Housing Task Force (2023), including the development of a social housing plan, unlocking City land for housing development and implementing targeted incentives for housing.

The development of the Social Housing and Infrastructure Plan (SHIP) is ongoing with some significant milestones met recently with the completion of an updated housing needs assessment (Helpseeker Technologies 2024) and an industry workshop bringing together many local non-profit housing operators and other service providers to pair land resources with operators. Through that process several key pieces of land were identified, representing the potential for thousands of new non-market housing units over the next decades. Next steps on the development of the SHIP, include a prioritization of projects and a tactical plan to get construction going as quickly as possible. Staff are excited to share the initial results of this work with Council early in the new year.

As for incentivizing development, several incentive options will be presented to the Council at an upcoming meeting. The proposed incentives include: Development Cost Charge (DCC) reductions, for specified types of construction; amendments to the City's permissive tax exemption (PTE) Program, focused on affordable rental housing; and, revitalization tax incentives. These incentive options aim to stimulate housing starts from both private and non-profit sectors while promoting rental and homeownership opportunities that align with our housing needs assessment. Additionally, the incentives will incorporate a geographic component, encouraging higher densities in transit-served areas and strategic neighborhoods, including downtown, the North Gateway, and transit-oriented zones.

Finally, with regard to unlocking City land for housing, progress is being made on the three sites that Council has identified for social housing (185/2024). The following is a short update on each site:

*971-999 Eckhardt Avenue (Eckhardt Block):* This site was included into the BC Builds program run by BC Housing, a program to rapidly bring on affordable housing. The property was listed on the BC Builds 'development opportunities' website in the summer. There has been significant interest in the site and staff are looking forward to reviewing proposals with BC Housing in December when the opportunity site application period closes. This site could potentially be under construction in 2025.

*2509 South Main Street (former Shielings Motel):* This site was recently granted pre-development funding by BC Housing to help get it ready for the next BC Housing Community Housing Fund (CHF) intake, anticipated in Spring 2025. The South Okanagan Similkameen Brain Injury Society (SOSBIS), has been selected as the organization to make applications on behalf of the City and will ultimately operate the housing when constructed. The site is expected to accommodate 50+ apartments geared toward families and seniors and is planned to share amenities with the neighbouring Columbus Court family housing, also operated by SOSBIS.

*225-283 Ellis Street (Ellis North Block):* This site is a significant downtown property with the potential for mixed use development with ground floor retail or office space and a multi-storey apartment housing above. Planning work is subject to decisions on other land assets. Staff anticipate planning work to commence in early 2025.

All three of the sites are also being included in the SHIP to help prioritize these opportunities with the wider array of properties and opportunities in the community as well as prioritizing them against other projects for provincial and federal grants. Staff will be presenting to Council on the overall social housing program at a future upcoming Council meeting.

### *Summary*

In summary, significant progress is being made on Council's priorities around housing and development with several new rental apartments under construction and a pipeline of approved units taking steps toward construction. The economic outlook for development is also encouraging with interest rates relaxing and construction costs easing with the decline of general inflation. The outlook for housing in Penticton into 2025 is positive.

### **Strategic Communications**

The Communications Department plays a vital role in supporting the City's economic development function by promoting a positive Penticton brand. Communications, whether through managing the CityViz data portal, Start Here Penticton site or engaging with media, communications ensures that potential investors and new residents have access to accurate and compelling information about our community.

Throughout 2024, the communications team has endeavored to creatively share Penticton's story through inspiring copy, stunning photography, and engaging videos. The focus has been on proactive resident acquisition marketing strategies. In addition to maintaining an up-to-date website filled with captivating content for those considering making Penticton their home.

Staff encourage Council and the community to regularly visit the Start Here Penticton page for new blogs and stories about Penticton residents and businesses. Content created over the past quarter include: 'cute, quaint and cozy cafes to visit', 'five fun things to do on a Saturday in Penticton', 'why families love living in Penticton' and a feature on a family who immigrated to Penticton from Tehran and their experience, among others.

Strategic ad placements in Q3 included: Penticton Real Estate Guide, Globe and Mail, BC Business and the Western Investor among others. Communications also supported small business week by creating a promotion in local media.

### **Other Q3 activities**

In addition to the above noted activities, several other initiatives pertaining to Economic Development have been underway and will be highlighted in greater detail in future reports:

*Downtown Parking Study:* With the recent changes in zoning allowing residential development without dedicated parking, Council supported funds to study the impacts of these policy changes on downtown parking. The work has been contracted, through a competitive process, to Urban Systems who have traffic engineering expertise and have done other parking studies in Penticton in the past. In addition to reviewing

the potential impacts of the policy changes on the downtown parking situation, the study will also specifically look at the feasibility of a downtown parkade. Work on the study is anticipated to be complete this year and staff will present findings and recommendations to Council early in the new year.

*Economic Development Strategy Development:* Following the successful workshop in June, staff have been working in partnership with the Chamber of Commerce on engaging local businesses to understand their current challenges and where the City and Chamber can assist. This work has been done through a series of Business Walks, where businesses are engaged directly with a quantitative survey and opportunity to provide qualitative information to enrich the survey data. 100+ businesses from a variety of sectors have been selected. To date 25 surveys and business visits have been complete. The remaining business walks will occur over November and results will be shared with Council and the community early in the new year. A more formalized business climate survey will also be conducted informing a revised economic development strategy, which is planned for 2025.

*Industrial Lands Review:* Council has given direction to provide analysis of the current industrial base in Penticton and the region. This report will be coming to Council in an upcoming meeting.

*Development of an Urban Development Institute (UDI) Penticton sub-committee:* The Urban Development Institute is a not-for-profit development advocacy group that is quite active in the Lower Mainland and Kelowna. Following the UDI tour of Penticton in June and having several UDI members now actively developing in Penticton, there has been a desire for a Penticton sub-committee to be created. The benefit of this group will be to raise awareness of opportunities in Penticton amongst the provincial development industry as well as provide valuable feedback on City initiatives and policy proposals.

*Collaboration with partners:* A big part of the economic development function is working with partner organizations and amplifying and supporting the work they do, whether sponsoring the Canadian Home Builders Association golf event, participating in the Chamber of Commerce business awards or top 40 programs, or attending regular board meetings, the City has an important role in sharing the work we are doing and ensuring the work that these organizations are doing is shared within the City apparatus.

#### **Q4 look ahead**

Over the last few months of the year, staff will continue work on the above noted projects and work on reporting out economic metrics for the year. Focus for Q4 will be on the Housing incentives and the Social Housing and Infrastructure Plan, finishing the business walks and planning for the economic development strategy plan for 2025 as well as continuing to meet with partner organizations on a regular basis.

#### **Financial implication**

This report is not recommending any expenditure of funds at this time. Any initiatives discussed are contemplated within existing economic development budgets.

**Analysis**

The third quarter of 2024 has continued the trends we have seen through the first half of the year with steady development but room for additional growth. The activities proposed for the remainder of the year will wrap up several 2024 initiatives and set the Economic Development function up for a successful 2025.

Staff are recommending that Council receive this report into the public record.

**Attachments**

N/A

Respectfully submitted,

Blake Laven,  
Director of Development Services

Concurrence

Director of Finance and Administration  AMC	Director of Public Safety and Partnerships  JC	Director of Community Services  KJ	City Manager  AH
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