25 October 2017

Director, Housing Policy
Department of Planning and Environment
GPO Box 39 Sydney NSW 2001
sthl@planning.nsw.gov.au

Re: Submission to the Exhibition of the Short-term holiday letting in NSW: Options paper

Dear Sir / Madam

The Planning Institute of Australia (PIA) appreciate the opportunity to make this submission to the exhibition of the Short-term Holiday Letting (STHL) in NSW: Options Paper. Our members have interests in ensuring the best possible use of available accommodation; resident’s amenity; tourism and the economic development of NSW; and especially avoiding distortions in the housing market affecting affordability.

PIA believes that a statewide regulation is appropriate that refines key definitions and their permissibility – but which includes criteria for where local environmental planning policies are appropriate to reflect specific housing or tourism priorities.

Background to PIA Submission

In 2016, the NSW Legislative Assembly Committee on Environment and Planning conducted an inquiry into the adequacy of short-term holiday letting in New South Wales. The Committee’s final report was published on 19 October 2016 and made 12 recommendations that applied a ‘light touch’ approach to regulation including:

- allowing home sharing, and letting a principal place of residence, as exempt development,
- allowing empty houses to be let as exempt and complying development,
- strengthen owners’ corporations’ powers to manage and respond to STHL issues in strata properties, and
- commit to further investigating impacts from STHL on traditional accommodation operators, and opportunities to reform their regulation.

In contrast to the recommendations from the Parliamentary Inquiry, a stronger regulatory approach is being implemented across major Northern European and American cities, such as London, Berlin, Amsterdam, Paris, Barcelona and New York.

The NSW Government responded to the report on 19 April 2017 indicating general support for the key recommendations, but indicated that more work was required before policy decisions were made.
The focus of this submission is on the impacts of STHL and how planning regulation and other forms of regulation can manage these impacts.

Our submission uses the questions from the Options Paper for subheadings.

**STHL impacts**

*Please indicate below which impact(s) are you most concerned about and how do you believe these could be managed.*

This section discusses the impacts of STHL in four broad areas: housing affordability, displacement of long-term local residents, residential amenity and business impacts. After providing a brief background, these impacts are addressed in turn below.

**Background: STHL in Sydney**

Sydney is the 10th largest Airbnb market worldwide with listings concentrated in and around the Sydney CBD and the northern and eastern beaches (Figure 1). The hotspots for STHL are the inner city areas, particularly the Sydney CBD, the harbour and eastern and northern beaches. In recent years there has been a proliferation of informal STHL, due to the emergence of online booking platforms such as Stayz and, in particular, Airbnb.

**Figure 1: Airbnb listings, Sydney**

Airbnb offers over 14,500 listings in Greater Sydney, representing a larger market than the traditional tourist accommodation market. Tamarama has the highest percentage of dwellings listed on Airbnb in
Australia, with one in five dwellings listed on Airbnb (Figure 2). From the below figure it is apparent that Airbnb has the highest concentration in the eastern suburbs. Indeed, the top four suburbs in Australia with the highest proportion of dwellings rented on Airbnb are in Waverley LGA; most of which are ‘entire home’ listings (see Figure 2).

Figure 2: Airbnb listings as a percentage of dwellings

[Image: Airbnb listings as a percentage of dwellings]

Source: Grattan Institute, 2016.
Note: Dwellings may only be listed for a short time throughout the year. Bondi Beach is included in Bondi.

The impacts of STHL are geographically uneven, with the most significant impacts occurring in areas where there is a high amount or proportion of STHL. In outer suburban areas, where there is a low amount or percentage of STHL, the impacts are likely to be minimal.

**Impact of STHL on housing affordability**

There is increasing concern surrounding the impact of STHL on local housing markets, particularly its effect on rental levels. This impact, as well as the displacement of local residents, was the driving force behind a tightening of regulation on Airbnb and similar forms of STHL in Northern Europe and North America.¹

At the same time, the *NSW Parliamentary Inquiry* and the *Options Paper* both downplayed affordability concerns, stating that limited evidence currently available suggests that the impact of STHL on rental availability is negligible. Given that housing affordability is a key issue for Sydney, it is important to explore this issue further. Indeed, the lack of evidence potentially reflects a lack of detailed investigation into the relationship between STHL regimes and housing costs.

The NSW Government asserts that a tightening of supply is the primary cause of unaffordability. It would therefore have been appropriate for the *Parliamentary Inquiry* and the *Options Paper* to address this issue in greater detail - especially given this was the key reason other jurisdictions tightened regulation and that STHL is also potentially reducing supply in some areas. Any regulatory response to STHL should acknowledge the impact that STHL could have on affordability at a local level.

In economic terms, the argument that STHL impacts on affordability is a simple one. STHL effectively

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¹ O’Sullivan, F. ‘Europe’s Crackdown on Airbnb’, City Lab, June 20, 2016.
subsidises the demand for housing (while not increasing the supply of housing). Subsidised demand increases aggregate demand. Increased aggregate demand increases houses prices.

Platforms such as Airbnb advocate that STHL provides mortgage relief to home owners - or allows tenants / owners to fund a holiday away. While this is demonstrably true, the upshot is that this additional revenue is also used to outbid long-term tenants or mortgagors – pushing rents and prices upwards. For instance, a household that rents out a spare bedroom for extra income will be able to pay more to rent a particular dwelling than similar household. A household that rents their dwelling out while on holidays is effectively increasing their disposable income, which in turn, increases their ability to bid the price of dwellings upwards.

There is emerging literature on the impact of Airbnb on affordability. Research in New York has shown that an increase in localised Airbnb availability is associated with an increase in property values (both rental and sales). A doubling of Airbnb listings is associated with increases of up to 18% in house values, all other things being equal. Renters or home owners yield 10% to 19% of the median rent or mortgage expenses per month. This additional revenue can be used to outbid long-term tenants or mortgagors and push prices and rents upwards.

Both the Parliamentary Inquiry and Options Paper suggested that data collection and industry reporting will facilitate an informed response from Government. Data collection and industry reporting would not necessarily reveal the impact that STHL is having on affordability. Instead, the NSW Government is recommended to commission detailed econometric modelling to properly investigating STHL’s impact on affordability.

The Grattan Institute researched the impact of Airbnb on affordability in their report Peer-to-peer pressure: Policy for the sharing economy. The report found that there are “localised” impacts on displacement revealing that “long-term tenants have clearly been displaced from the inner city beachside suburbs.” At the same time, it suggested that – at a broader Sydney scale – “concerns about rents are overblown” as the number of Airbnb listings was still a small fraction. The Grattan Institute research is an assertion that should be tested with robust quantitative analysis. Nonetheless, the notion that at a metropolitan Sydney level, the impacts on rents and prices are likely to be minimal makes sense. Similarly, the impact on rents and prices in regional areas may be mitigated by the existing low rents and prices of these locations. However, at a local level the impacts on rents and prices could be very significant.

Displacement of long-term residents

In terms of the displacement of long-term residents, the impacts of STHL are again unevenly distributed; with significant impacts in some localities and a low impact in others. Research completed by the University of Sydney investigated the percentage of frequently available Airbnbs as a proportion of rental vacancy rates. The research found that in Parramatta this was only 5%, suggesting a low competition for dwellings as long-term rentals. However, the number of dwellings listed on Airbnb in Waverley LGA is 350% of the vacancy rate of Waverley; demonstrably constraining the supply of permanent rental housing and placing pressure on rents. For these reasons, a number of North American and European cities, including London,

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3 Minifie, J. Peer-to-peer pressure: Policy for the sharing economy, Grattan Institute, April 2016.
Berlin and Amsterdam have either banned or heavily regulated Airbnb.\textsuperscript{6} Paris regulates Airbnb with a stipulation that entire dwellings are not to be rented out for more than one-third (120 days) of the year.\textsuperscript{8}

**Amenity impacts**

Planning controls seek to achieve a higher level of amenity in residential areas, such as lower levels of noise and light spill and odours, as well as quieter traffic conditions. One of the common arguments against STHL is that it disrupts residential peace and quiet, with increased levels of noise and traffic generation. PIA is concerned at the potential impacts that short-term accommodation might have on the residents in residential flat buildings in residential zonings. The potential for tourists on holidays to impact on the amenity of existing residents in their day-to-day activities is not always seen as desirable. Short-term accommodation should only be acceptable in a residential flat building where it is supported by the elected Body Corporate committee representing the residents in that building. The legislation should not, rely on local government to enforce the behaviour of short-term residents and the amenity of existing residents.

Experiences where rooms are made available in a dwelling house where there is direct supervision seem to have been successful with minimal impacts on amenity.

**Business impacts**

The Options Paper suggests that around one-third of accommodation supply in non-metropolitan coastal NSW is STHL and that, as a result, STHL is a significant contributor to regional economies. Furthermore, Airbnb indicate that it spreads tourist dollars further from traditional hotspots and potentially creating more widespread economic benefits. To the extent that STHL pervades residential areas, it is logical that it would have positive economic spillovers to local retail, such as nearby cafes. However, it is difficult to determine whether STHL creates net additional economic benefits (i.e. inducing new spending that wouldn’t have otherwise occurred), or whether it is simple diverting economic resources to new areas.

**STHL – planning regulation**

*How should STHL be subject to a planning regulatory framework? If STHL is to be regulated via the planning framework, how should it apply? What would be the impacts of applying a planning framework to STHL?*

Given that the impact of STHL is potentially uneven – more positive in some areas and more negative in others – it is important that planning regulation not only occur at state government level, but also on a local level. This would facilitate a multi-faceted regulatory approach able to be calibrated to each LGAs need, allowing some areas to capitalise on the benefits of STHL and others to avoid or reduce negative impacts.

The planning regulation response could involve creating a definition of STHL to be added to the *State Environmental Planning Policy (Exempt and Complying Development) 2008* (Codes SEPP). This definition would be standardised and for those councils where STHL doesn’t necessarily work due to local circumstances, then these councils could seek an exemption from the SEPP. The definition for STHL in the Codes SEPP could vary for ‘entire homes’ and ‘spare bedrooms’ and be along the following lines:

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\textsuperscript{6} O’Sullivan, F. ‘Europe’s Crackdown on Airbnb’, City Lab, June 20, 2016.
\textsuperscript{7} O’Sullivan F, Now London and Amsterdam Are Capping Airbnb Apartment Rentals, 2 December 2016.
\textsuperscript{8} Griswold A, Paris is blaming Airbnb for population declines in the heart of the city, Quartz, January 05 2017.
<table>
<thead>
<tr>
<th>Regulation</th>
<th>Rationale</th>
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<tr>
<td><strong>Entire homes</strong></td>
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<tr>
<td>for a max. continuous period of 10 days</td>
<td>This provision would allow entire homes to be leased out while the main occupant is away.</td>
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<tr>
<td>for a max. period of 60 days in any 12 mth period</td>
<td>This provision ensures that the dwelling is not leased for commercial purposes. It would limit the income from STHLs and thus ensures that the economics of leasing out entire homes favours long-term tenancies. Those STHLs that are seeking a more commercial operation, such as holiday homes, could seek approval under ‘Additional local provisions’ in the LEP. Limiting the total number of days has been successfully applied in London, Paris and Amsterdam.</td>
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<tr>
<td><strong>Spare rooms</strong></td>
<td></td>
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<tr>
<td>for a max. number of 2 rooms</td>
<td>This provision would seek to reduce the impacts of dwellings being used as quasi backpackers accommodation or hotels.</td>
</tr>
<tr>
<td>for a max. period of 60 days in any 12 mth period</td>
<td>As above.</td>
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As the *Options Paper* correctly points out, setting a limit on the total days per year that a dwelling can be used as STHL would control the degree to which a dwelling is used as STHL and retain its primary use as long-term residential. If the limit is set too high, the income generated through STHL may obviate the need for long-term residential use the rest of the year. Conversely, too restrictive a limit could stifle the demand for STHL.

Limiting the maximum number of bedrooms may reduce the likelihood of large gatherings and the potential for noise, traffic, parking, ‘party houses’ and other impacts. Although, limiting the number of bedrooms in a STHL may be unfairly restrictive on larger homes, which are common STHLs in regional NSW.

In addition, councils that wish to allow more permanent forms of STHL (i.e. such as holiday homes in regional areas) that do not fit within the existing definitions of ‘serviced apartments’, ‘bed and breakfasts’ or ‘backpackers accommodation’, could allow an avenue for development approval through ‘Additional local provisions’ of the LEP.

In this respect, it could also be a definition included into the Local Environmental Plan Standard Instrument, where in local areas there is a major demand, and negative impacts are being felt. If the above criteria or rational is greater, then local councils, as a local response could include a local provisions clause in the local LEP.

The planning policy response might work best in concert with strata and licensing responses (detailed below). For example, it is arguable that amenity concerns surrounding the presence or otherwise of a host could be best controlled under strata laws.

The regulatory impacts of applying planning regulation, as applied above and combined with appropriate licensing, strata and self-regulation, would strike an appropriate balance between the following competing objectives:
• fostering the ‘sharing economy’, freeing up and more effectively utilising latent economic resources
• giving hosts the flexibility to use spare capacity in their dwellings
• flexibility and suitable accommodation for tourists and visitors and the ability to ‘live like a local’
• reducing pressures on housing affordability and thus allowing long-term residents to continue to live in their communities, and
• maintain residential amenity in areas primarily dedicated to residential uses.

Should there be different planning frameworks in regional and metropolitan areas? If so, how and why?

Given that the impact of STHL is uneven, planning regulation should allow for diverse responses in regional and metropolitan areas. This does not necessarily entail different policy applying to metropolitan and regional areas. Instead, minimum standards criteria could be provided in the Codes SEPP, applying at a state-wide level. Councils that want to encourage STHL could do so under Additional Local Provisions that allow more permanent and intense versions of STHL (such as holiday homes) to be approved subject to a Development Application.

Summary

The options outlined in this paper are summarised in the below table. For the future regulatory framework, which top 3 options (if any) would you like to see in this framework? Why?

PIA urges the Department to prepare a statewide regulation - which includes criteria for where local environmental policies are appropriate to reflect specific housing or tourism priorities. This will ensure that international or statewide players have a regular practice and criteria to follow across the state. This will make it easier to implement and monitor.

PIA recommends consideration of options for a planning regulation to limit the length of stay, number of days per year and bedrooms. These options could form criteria for ‘exempt’ development approval. If the criteria are exceeded, then a Local Provisions Clause in an LEP can apply.

Beyond planning regulation, ‘monitoring and reporting’ under industry self-regulation could ensure compliance with little cost and resources (as this can be built into the online software).
PIA also recommends more detailed investigation including econometric modelling of the impact of STHL on house prices both regionally and locally.

Thank you for your consideration of PIA’s submission. Should you require any additional information or explanation of the matters above, please do not hesitate to contact John Brockhoff on 0400953025 or john.brockhoff@planning.org.au.

Yours sincerely

Jenny Rudolph, RPIA
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