SHELTER NSW SUBMISSION

Short-term holiday letting in NSW

About Shelter NSW

Shelter NSW is a non-government, non-profit, social change agency committed to working for a fair and just housing system. We are the state's peak advocate for housing justice uniting the voices of low-income households and non-profit organisations working on their behalf. Shelter NSW advocates for the housing interests of low-to moderate-income and disadvantaged people, and provides community education to build the capacity of non-profit organisations to provide housing and housing-related services. Shelter NSW is not aligned to any political party or commercial organisation.

Introduction

The pressure on the NSW rental market is a fundamental issue for policy makers. The shortage of housing that is affordable and available - particularly for very low and low income households – is at critical proportions and has been steadily worsening over many years.

Two key sources (among many) establish this beyond doubt. The work of the Australian Housing and Urban Research Institute (AHURI) over a number of censal periods, identified that at the 2011 census there was an absolute shortage of rental housing that was affordable to renters in the bottom 20% of incomes of 47,000 in Sydney and a further 14,000 in non-metropolitan NSW – a total of 61,000 rental properties. This had risen steadily from 28,000 at the 1996 census. However, when the market reality that many of the potentially affordable rental properties were occupied by renters with higher income, the shortage of affordable *and available* rental housing for very low-income households in NSW rose to 85,600 (up from 51,200 inn 1996)

While in 2011 there was no absolute shortage of rental housing affordable to households in the second 20% of incomes (low income households), the shortage of affordable and available rental properties for this group was 49,300. For both groups – the poorest 40% of private renters, the shortage in 2011 was 134,900. As a result, in Sydney 92% of very low income households and 55% of low income households were paying unaffordable rents.[1] The analysis of the most recent census is not yet available. But the increase in households renting and the fact that most new supply is entering the market in the higher price ranges, suggests that demand and competition for low costs rental will have worsened, and with it the critical undersupply of such rental housing.

A more recent analysis of rental affordability, the National Rental Affordability Index produced six-monthly by SGS Economics & Planning, Community Sector Banking and National Shelter, shows "in the December quarter of 2016, Greater Sydney not only continues to be the least affordable of the regions studied, but is at its lowest level since at least mid-2012. … Rents remain Severely Unaffordable within a 10 kilometer radius from the Sydney CBD, with the average household facing rents at more than 60 per cent of their total income in some inner postcodes, and more than 40 per cent in most other postcodes within this radius. … regional NSW has also declined in affordability since the last release and remains the least affordable of the rest of state areas studied."[2]

The result of these unsustainable rental affordability pressures is that Sydney has become spatially polarized as low income households seek the cheapest housing. Such spatial segregation is both economically and socially damaging to the city and the State, quite apart from the material deprivation and lost opportunities experienced by low income renter households.

Given this, any serious risk to the availability of rental supply or of increased price pressures, even in selected parts of the market, must be of paramount concern to policy makers.

The impact on affordability and availability of increased short-term lettings – principally through the advent of on-line lettings though companies such as Airbnb - is the primary focus of this brief submission.

The other impacts, particularly environmental and amenity impacts, have been largely established and have been clearly articulated in the options paper. We will briefly comment on possible regulatory options to address these, but our principal concern is the impact on the rental market.

---

[1] *Hulse et al, AHURI Final Report No. 241. From Tables18 & 19: Summary of spatial dimensions of shortages for Q1 & Q2 households on three measures, 1996, 2006 and 2011. (Source: Customised ABS matrices based on 1996, 2006 and 2011 Australian Census of Population and Housing data.)*

[2] *The Rental Affordability Index. Key findings report*. May 2017 Release. Aged cohorts focus. https://www.sgsep.com.au/application/files/5914/9490/7746/RAI_Report_May_2017_FINAL-_Small.pdf

Rental and affordable housing stock

The Options paper, while noting that the housing market is becoming less affordable, says:

> "… In these areas, some consider that STHL has the potential to compete against traditional forms of residential tenancies.
>
> However, limited evidence currently available suggests that the impact of STHL on rental availability is negligible.
>
> Sector-wide transparent data collection and reporting from the industry may help to ensure that the issues can be monitored to facilitate an informed response from Government."

Shelter is strongly of the view that this both understates and misrepresents the available evidence. The initial understatement relates to the introductory remarks of this submission. The NSW housing market is not simply "generally becoming less affordable", but has a profound undersupply of affordable rental housing, that far outstrips any current government responses, and has a devastating impact both structurally and individually. This suggests that any reasonable indication of an impact from STHL will require more than monitoring data reports from industry.

While there has been limited Australian research into the impact of STHL such as Airbnb, there is a growing body of international research, and at least two significant pieces of research on the Sydney market, which we will come back to. Combined with the very high level of penetration of Airbnb in this country and its continuing rapid growth, the international research alone makes a strong prima facie case for far more serious consideration than is given in the Options Paper.

Indeed, it is worth noting that as recently as 26 October, Core Logic's quarterly report identified Airbnb as one of a number of factors potentially driving the growth of rental prices:

> CoreLogic previously had concerns that heightened levels of new housing construction and investor participation would cause rents to fall and a year ago rental growth was slowing across most regions of the country. Over the past year though, there has been an acceleration in rental growth with the rents increasing by 2.9% compared to an increase of 0.9% at the same time last year. A similar trend has been evident across all capital cities. Exactly what has driven this acceleration is unclear. However, it is probably due to a number of factors including: rapid population growth and the sheer lack of affordability of owning a home. Furthermore, the rising popularity of AirBNB is potentially resulting in some level of stock removal from the long-term rental market and increasing supply in the short-term market. Additionally, as mortgage rates edge higher, particularly for

investment mortgages, it is likely that landlords will be doing their best to recoup their higher cost of debt by pushing rents higher.[3]

Shelter is also of the view that the findings of the two explicit studies of the impact of Airbnb on selected parts of the Sydney rental market have not been correctly represented in the Options Paper.

The two papers – Phibbs and Gurran (Jan2017) 'When Tourists Move In: How should urban planners respond to Airbnb?' and Tenants' Union of NSW (March 2017). 'Belonging anywhere: Airbnb and renting in Sydney'[4] – draw on similar data, but appear to reach different conclusions. However, the difference is easily overstated.

Phibbs and Gurran apply a housing economics analysis to the data. They limit the data analysed to frequent (multiple), whole house lettings[5]. They show that in four of the five areas considered, the frequently available Airbnbs as a proportion of the vacancy rate, range from 44% to 353% of the vacancy rate. The removal of these dwellings in proportion to vacancy rates that are well below equilibrium, suggests a substantial effect on rental availability and costs in the areas of high concentration of such listings.

However, the Tenants' Union study concludes that such effects are not discernible in the areas they considered. They identify no clear correlation between seasonal peaks of Airbnb lettings and vacancy rates. They also don't find a link between particularly high Airbnb listings and rises in rents within the top 10 highest areas of such listings.

However, in market such as Sydney with a complex array of market drivers – effects of redevelopment, effects of population growth, speculative activity, among others – it is not surprising that the price or availability impact of Airbnb will be masked. However, this is very different to the Options paper suggestion that the impact (at least in the case of availability) is negligible.

[3] Core Logic, *Quarterly Housing & Economic Review* - October 2017 Release. 26 October 2017

[4] Phibbs and Gurran (Jan2017) 'When Tourists Move In: How should urban planners respond to Airbnb? *Journal of the American Planning Association*, 83:1 80-92

Tenants' Union of NSW (March 2017). 'Belonging anywhere: Airbnb and renting in Sydney' a report by the Tenant's Union of NSW, march 2017

[5] The Tenants' Union identify frequent entire homes listings as well as infrequent entire homes lettings and all entire homes listings created. While the TU report spends a considerable part of the report identifying that such frequent entire home listings are a modest proportion all entire home listings, and to showing that only such frequent listings would provide an income stream incentive (which is not the only incentive) to move a property from the established rental market to short term letting, this does not conflict with the economic analysis presented in the Phibbs and Gurran paper which only relies on this smaller proportion.

The contribution of any one factor amongst others to a critical rental affordability and (for lower income renters) availability problem matters. And the economic analysis very strongly suggests that such a contribution exists.

In fact, there are now opportunities to test this in two ways – by "controlling for endogeneity using a shift-share instrumental variable strategy" or by examining an Australian market, specifically Tasmania, in which the other market drivers that so influence Sydney are largely absent.

While we will have to wait for the latter, the former analyses have already been undertaken in the US and have shown a relationship between listings and price rises[6].

Finally, a very clear finding from the TU study is that, seasonal variations aside, the rate of growth of frequent, whole home listings has grown rapidly over the past two years. As a result, the impacts in rental availability or price from these listings is only likely to grow – and should not be dismissed or ignored.

Perhaps most important, the conclusions from the TU report is not that the risks of impacts on the private rental market from STHL simply warrant the collection of industry data, but rather that

> "… this may change, and if it does then it means that now is a good time to establish a sensible regulatory regime. It means that we can prevent the impact on communities that other cities have reported."

Regulatory options

Shelter only wishes to make some general comments about the regulatory regime that best would best apply to STHLs.

- The first is to agree that there is merit in industry Codes as part of any regulatory regime, as part of a co-regulatory approach and quality improvement ethos; but industry self-regulation will never effectively mitigate risks associated with an industry.

- We are most strongly attracted to the registration or licensing approach. This is because it can meet a number of objectives: minimising the risk of accommodation causing nuisance to neighbours; requiring timely responses in the case that such problems do occur; addressing risks to housing affordability; eliminating multiple registrations by a single person; setting a maximum number of nights a year for which the a property can be let when the registered host is not present; provide

[6] Kyle Barron, Edward Kung, Davide Proserpio ' The Sharing Economy and Housing Affordability: Evidence from Airbnb' July 21, 2017

better information to users and proving better data through a requirement to submit regular reports.

- Like the conclusion in the Tenants' Union report, Shelter supports setting the upper limit on the use of short term letting at 60 nights per year.