Peer Review

Byron Shire – Short Term Rental Accommodation Caps

Economic Impact Assessment

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1. Introduction

Byron Bay Council has prepared a planning proposal to the NSW Government to amend the planning rules for Short Term Rental Accommodation (STRA) that apply in Byron Bay Council for non-hosted STRA. The Planning Proposal will seek to introduce the following limitations with regards to hosted STRA:

1. Non-hosted STRA will be permitted for up to 365 days per year on land within a STRA Precinct which is close to the main Byron Bay centre;
2. Outside the STRA Precincts, non-hosted STRA will be capped at 90 days per year, instead of a cap of 180 days.

In processing this proposal, the Department of Planning has requested that an Economic Impact Assessment (EIA) as part of this process. This EIA has been prepared by Urbis, a consulting firm based in Sydney. I have been asked to undertake a peer review of the EIA (which on the front cover says it has been prepared for the NSW Department of Planning, Industry, and Environment).

In terms of my qualifications, I have two research degrees specializing in Economic Impact Assessment. My Masters degree examined the economic impact of the Goulburn Bypass. My PhD degree looked at methodological issues in measuring economic impact analysis. I have published numerous monographs and academic papers on the issue. Although my research has focused more on housing issues more recently, I have often been asked to peer review economic impact estimates. My more recent housing research has examined in some detail the short term rental market and appropriate planning responses. With my colleague Nicole Gurran, we authored one of the early papers in the international planning literature on planning responses and short term rental housing.[1]

I should also add that on several occasions I have worked on consulting studies as a subcontractor to Urbis, including one project with the senior author of the Urbis Study.

[1] Gurran and Phibbs (2017)

2. General Comments

I have four main comments about the EIA. My largest concern is that the authors have attempted to use the findings of the EIA as a decision-making tool, just as you would a cost-benefit analysis. This is a fundamental error. It is generally recognized that economic impact analysis can be a useful aid in decision making but it by itself not intended for use an evaluative tool. This is because many actions that might generate significant economic benefits could have significant social and environmental costs. So to use a Sydney example, we could rezone the Royal Botanic Gardens for commercial buildings – this would have a larger economic impact than its existing use but it would not occur because the negative social and environmental impacts of that change would be seen to outweigh the positive economic impact.

The authors of the report might respond by saying that the report did include social impacts as well as economic impacts. They do include a section on social impacts and identify that there are local residents/community benefits of the council's planning proposal. However, in a scoring system each stakeholder group is given the same scoring weight. This means that the benefits to the local community of less STRA is more than outweighed by the negative impacts to visitors of having to pay more for their accommodation (or worse still have to have a holiday somewhere else). Or in other words in forming their recommendations there was no attempt to attempt to weight the relative importance of the various stakeholders in coming to a final view about the potential STRA changes.

Whilst the authors might defend their stance and say that they did not attempt to weight the outcomes for each of the stakeholders because they didn't know the weights to apply, by combining the scores in the way that they have in the report they explicitly use an equal weighting for the impacts on each stakeholder.

I would strongly suggest that if you did a poll of residents of NSW and said what is more important – A household having a home to rent for their family in a town where they have been a long-term resident or a visitor to Byron Bay having cheaper accommodation, you wouldn't see a majority supporting the plight of visitors. Unless you consider the relative weightings of the various stakeholders, it is impossible to come to a balanced recommendation. Just adding up scores is not a method that will generate any precision. As a result, I am of the strong view that the recommendations that the consultant provides are misleading.

Moreover, in the report, there is no explicit balancing of a functioning housing market against some losses of employment related to STRAs. This seems strange for a report sponsored by a Government agency that over the last 10 years has highlighted the importance of a functioning housing market in its planning proposal decisions. Over that period, the Government has rezoned many industrial areas to higher density housing despite the loss of industrial jobs as a measure to assist the housing market. It seems strange that this is an important strategy for Sydney but not for Byron Bay, where the levels of housing stress are higher.

This leads into my second point. The NSW Planning system is considering this change, not the Byron Bay LGA. For this reason, the most important impact to consider is to the impact of any changes on the NSW economy[2] . The Urbis report suggests that restricting the supply of tourist accommodation will lead to people having holidays in other surrounding locations (p130). In economic terms, this means that for the NSW economy there will be no net economic impact – the economic activity will be transferred to another area. Many other north coast councils have similar unemployment rates to Byron Bay LGA and also have less stressed rental markets than Byron Bay. So transferring tourists from Byron Bay to these locations would have net benefits for NSW. Perhaps this was a problem with the brief for the project, but a NSW perspective is missing from the analysis, which is strange given that the study was funded by a NSW Government agency.

My third point is that in a number of decisions the authors make in the study, they downplay the benefits of long-term renting and highlight the benefits of STRAs. I will point this out as a go through my review. In places it looks like the study might have been funded by STRA owners in Byron Bay rather than taking a broader perspective. Again, perhaps this was a problem with the brief, but in my view the current report does not present a balanced view of this issue.

My last point, which is less important than my previous observations, is that in places the report lacks a level of detail required in a report for public exhibition and discussion. It is very hard to work out the source of some of the data mentioned in the report and to cross-check sources. For example, there is no reference list.

3. More detailed comments

Industry insights

Whilst industry insights are useful, industry commentators often make claims that are self-serving and need to be tested by fact-checking or broader considerations. In my experience I have found the real estate and property industry in particular need of this strategy. I thought the section on Industry Insights tended to report claims from industry commentators without much scrutiny. For example, on page 69 there is a quote that the STRA properties are expensive and hence will not provide affordable long term rentals. This is a claim made by many advocates of STRAs. The problem with the claim is that it doesn't reflect how rental markets work. When vacancies are tight and properties scarce, higher income households end up outbidding lower income households for cheaper housing stock. Providing more expensive stock frees up lower income stock as higher income households are able to move into the more expensive stock if it becomes available. This process is known as filtering.

On page 70 the following statement is made:
"it was reported by a manager average spend for STRA groups is $4,190 versus $732 for a visitor in hosted accommodation". This statement is intended to support the claim the average spend is substantially higher in STRAs. But where is the data from and does it make any sense. The sole visitor spends $732 – how many people are in

[2] The NSW economy was explicitly referred to in the Gateway decision of the Department of Planning.

the STRA group. If there was 6 in the group, the per person spend would be higher in the hosted accommodation. There is a claim that the source of this information is Tourism Research Australia/ A Perfect Stay. When you go to the website for Tourism Research Australia and enter "A Perfect Stay" into their search engine you get zero hits, so it is not possible to validate this evidence.

Social Impact Assessment

The definition of social impacts is unusual. In a section titled Social Impacts it claims: " we have also undertaken a social impact assessment that considers the non-measurable potential direct and indirect impacts of the proposed policy on the Byron Shire economy". This is a very unusual approach to social impact assessment. Ziller (2012,xiv) defines social impact assessment as " the process through which efforts are made to estimate in advance the likely social consequences of a decision or action by a public or private entity". There is no mention of an economy when measuring social impacts.

No social impact analysis would consider that the social harms of visitors having to spend more for visitor accommodation is the same as the social harm of a family being able to access a dwelling in township in which they have been a long term resident.

Lessons from experience about STRA regulation.

In the introduction (page 32) there is a claim that:

> *" to date there are no sufficiently comparable policies that have been adopted and evaluated in other jurisdictions. Therefore there is little guidance as to the impacts that the potential policy options are likely to have. "*

I would dispute this claim and point out that the literature is rich with papers that have evaluated the impact of STRA regulation including caps in many cities that would have been useful to reference. For example, entering the search term "regulation of short term rentals" into Google Scholar yields a wealth of papers from across the world examining the issue, including papers on the application of caps that has been a strategy adopted in many European cities. Two of the papers available through Google Scholar consider recent Australian research on AirBnB (Thackway et al, 2021 and Thackway and Petit, 2021). The Thackway and Petit article calculates the Airbnb density (AirBnB stock/total dwellings) across Sydney which identifies that the Sydney densities are orders of magnitude less than Byron Bay. Following on from this variability issue, the Thackway and Petit paper concludes:

> *"In the context of affordable housing policies, this underscores the need for policymakers to consider individual Airbnb and housing market conditions, rather than resorting to 'one-size-fits-all' approaches."*

The long term rental market in Byron Bay

On page 42 the report mentions figures for long term Byron Bay Rentals in 2019 was 6030. The footnote to Chart 2.3 on page 66 says that this estimate is based on an average number of bonds held over the year. Using the NSW Government Rent and Sales Report estimates of total rental bonds held for 2019 (taking an average of 4 quarters)[3] I get an estimate of 3016 rental dwellings. This means that Byron would most likely be the only significantly sized LGA in Australia where the STRAs exceed the long term rentals by a wide margin (about 200%). What is even more alarming about this statistic is that when Gurran et al (2020) reported this figure back in 2017 it was only 43%.

Perhaps if this issue was better understood by the authors, it would have been more obvious that a planning control in Sydney where short term rentals make up about 5 percent of private long term rental properties might need to be adjusted for a market where the equivalent ratio is about 200 percent.

Estimating expenditure in Byron with a reduced amount of STRAs.

The report correctly acknowledges that the expenditure of STRA owners in Byron is an important economic impact which they measure. The main tool they use for this measurement is a survey of STRA owners who provide data on their expenditure on items ranging from linen to real estate services. They then compare the expenditure of long term rental landlords and estimate the difference as $18,400. That is STRA owners spend $18,400 more than landlords on local services. The authors then estimate the reduction in STRAs and the increase in rental properties for each of the scenarios and multiply this difference (18,400) to estimate the reduction in expenditure and translate this into a potential reduction in employment. I have two problems with their calculations.

Firstly, I do not think enough care was taken in adjusting the responses of STRA owners to compare them to the STRA population of owners. Whilst expenditure on things like cleaning might be fairly standard, expenditure on property managers (over $6,000 per annum) and pool cleaning (over $2000 per annum) would vary across the population of STRA owners. In the survey methods section the authors describe how property managers were used to distribute survey forms. As a result, it's possible that the responses would overestimate expenditure on property management (since the responses would under-estimate the number of self-managed properties). Similarly, you would only spend money on pool cleaning if you had a pool. The data on the STRAs with pool is available from the booking platforms. It might have been prudent to cross-check this figure.

Secondly, and more significantly, the authors use a method to estimate the expenditure of long term rental landlords which is hard to follow. Firstly, they claim that the Household Expenditure Survey estimates that landlords spend only $2095 per annum on household cleaning and maintenance. This figure seems like a small estimate, but no reference is given to what part of the Household Expenditure Survey is used or what method was employed to update the HES data to current day values. However, the more significant issue is the way that the report treats payments by long term rental landlords to real estate agents. The authors acknowledge that the $18,400 difference is an overestimate because they exclude payments of long term rental landlords to real estate agents. Their justification for this strikes me as unusual:

[3] Available from https://www.facs.nsw.gov.au/resources/statistics/rent-and-sales

> *" Although this does not account for potential property management fees associated with long term rentals and may therefore represent an overestimate of foregone spending in absolute terms, it is sufficient for the purposes of our assessment of relative impacts"*

Why not prepare an accurate estimate of the differences in expenditure if you want to include it in the estimates. In any robust EIA you need to compare like with like. If you didn't want to estimate real estate fees on the long term landlords' side, why include them on the STRA side. It isn't a difficult calculation – multiplying rents by the industry rate. A possible conclusion from a reader is that the authors are trying to make the STRA side of the ledger look "positive".

I have a similar issue with the way that the expenditure of STRA guests is used to estimate local employment impacts. The reductions in STRA under some options in the study will lead to reduced retail expenditure in Byron Bay. This is used to estimate a likely reduction in employment. But the increase in long term rental stock described in these scenarios, will lead to an increase in retail expenditure since in a market with such tight vacancy rates (Terzon, 2021), there will be additional expenditure led by the tenants of the additional rental properties that the reduction in STRA releases[4]. (Also, the reduced rents under scenarios which reduce the STRA stock will generate additional expenditure from all households who benefit from these lower rents). Given that the STRA survey reveals that the average letting periods is only 120 days, even if the expenditure of tenants per day was a third of STRA guests, there would be no net change in annual retail expenditure. This expenditure from tenants should have been included in the analysis of retail impacts. The advantage of long term tenant expenditure is that occurs across the year so can provide more stable employment in Byron rather than just providing employment in the holiday peaks. Tenant expenditure would also support employment in service industries such as health and child care that are unlikely to be supported by a visitor economy. The increase in the permanent population will also increase the viability of service industries that are used by permanent residents and not short term visitors.

4. Conclusion

My view is that whilst much of the material in the report is useable, the recommendations that it provides are unreliable for a number of reasons:

- The report confuses economic impact analysis with evaluative methods like cost benefit analysis

- The method it uses to compare options is unreliable because no attempt is made to weight the importance of the impacts on different stakeholder groups.

[4] In a market with large vacancy rates (say 4%) a reduction in STRAs would not necessarily generate additional expenditure, since the number of long term renters living in the community might not increase. When vacancy rates are as low as they are in Byron a shift from STRA to long term rental will mean that more long term renters can live in the community, and hence the permanent population will rise.

- The economic impacts focuses on Byron Bay impacts when some estimates should have been made of the impacts on the NSW economy. In many cases the negative impacts on Byron Bay from the changes proposed by Byron Council, will be matched by positive impacts on surrounding Councils.

- The economic impacts ignore the positive economic impacts from the increase in long term tenants associated with some options.

- The study, perhaps because of errors in estimating the size of the rental market, has underestimated the extent of the market failure. In my opinion, the experience of Byron Bay is so different than Sydney, a more significant planning response to the issue of STRAs is required in Byron - the Sydney STRA cap will not be effective.

Once these issues are considered, it seems likely that the economic impacts on Byron Bay of the changes proposed by Council would be very modest and on the NSW economy likely to negligible since the negative impacts in Byron LGA would be matched by positive impacts in surrounding LGAs.

Public Exhibition of the Report

If the report is going to be exhibited to further progress the Planning Proposal, I would recommend some alterations to the current report before it is exhibited. These would not involve a great deal of time by the consultants.

1. Remove any sections that use the cumulative Distributed Net benefits. eg Page 9-12; p85-98, p165-168
2. Correct the Chart 2.3 and the accompanying text
3. Explicitly compare the STRA housing density (STRA/Total dwellings) in Byron and Sydney[5] to highlight the different nature of the two housing markets.
4. Highlight that the economic impact of reducing STRAs do not include the expenditure of long term renters, and hence will over-estimate the economic impacts.

[5] Note some Sydney data is available from Thackway and Petit (2021)

References

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