

# BYRON SHIRE PLANNING PROPOSAL ON SHORT-TERM RENTALS

Report to Byron Shire Council

EPIC DOT GOV PTY LTD

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## Introduction

As part of the process of finalising their Planning Proposal on Short-term Rentals, Byron Shire Council engaged Dr Peter Phibbs to provide some advice on aspects of their planning proposal. Specifically, Dr Phibbs was asked to:

1. Review and advise of any changes required to the planning proposal in response to Gateway requirement 1(b);
2. Consider any changes in STRA/economy/housing circumstances since the preparation of the Urbis EIA (Urbis, 2021)
3. Provide advice on the appropriateness of the 365 day precinct boundaries
4. Respond to submission matters pertaining to economic impacts
5. Advise on claims about the economic impact of the planning proposal based on Tourism Australia data.
6. Attend a councillor workshop.

Dr Phibbs has extensive qualifications in economic impact assessment and is a leading national and international expert on the short-term rental market. He has two research degrees specializing in Economic Impact Assessment. His Masters degree examined the economic impact of the Goulburn Bypass and his PhD degree looked at methodological issues in measuring economic impacts. He has published numerous monographs and academic papers on the issue. His recent housing research examined in some detail the short-term rental market and appropriate planning responses. With Nicole Gurran of the University of Sydney, he authored one of the first papers in the international planning field on planning responses and short-term rental housing.<sup>1</sup>

Dr Phibbs was also invited to provide his professional opinion on the Urbis EIA in December 2021 through a peer review of the EIA report.

### Task 1. Gateway Requirement 1(b)

The review of Gateway requirement 1(b) involves firstly, suggesting any changes to the risk matrix framework (which summarizes key potential risks) and secondly, suggesting any changes to the Risk Mitigation and Monitoring Strategy contained in the planning proposal.

#### The Risk Matrix Framework

The risk matrix framework (see pp 40-43, Version 4 of the Planning Proposal), takes information from the EIA and generates a risk matrix to identify the benefits and disbenefits of the proposed changes for various segments of the Byron community. The review offers no suggestions for changing the risk matrix, but it does offers some comments on the potential size of the benefits and disbenefits relating to Task 2.

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<sup>1</sup> Gurran and Phibbs (2017)

## **The Risk Mitigation and Monitoring Framework**

The review of the Risk Mitigation and Monitoring strategy (see pp 44-46 of the planning proposal) supports the comments about the needs for risk mitigation, but suggests it might be appropriate to publicise any Council programs that are available to support members of the community experiencing economic hardship. The group likely to have the greatest risk exposure are employees of firms providing services to the existing STRA sector. It should be noted that recent decreases in Byron's unemployment rate (see below) should provide opportunities for workers who lose their jobs in that sector, to transition to other employment.

Given the uncertainty around any economic impact assessment, some close monitoring of the outcomes of the planning proposal is important. It is suggested that Council could consider producing a monitoring report (with a reporting cycle of about 18 months). The report could consider, not limited to:

- The Rental market – including total active bonds and rent levels
- Unemployment rates
- Business closures
- Tourism activity
- STR – nightly rates

The report should benchmark Byron against the performance of other North Coast LGAs.

## **Task 2. Updates since the Urbis EIA was published**

### **The Rental Market**

The rental market has deteriorated significantly since the Urbis EIA report. The report was published at the end of 2021 and reported data until March 2021. A key statistic here is the size of the private long-term rental market which can be measured by the total number of active rental bonds<sup>2</sup>. These are shown in Figure 1 and are based on figures from the NSW Rental Bond Board. Whilst the rental market had an upward trajectory from 2017 to 2019, the market expanded rapidly in 2020 as landlords converted their properties from the short-term rental market to the long term market as a reaction to the falling number of tourists impacted by closed international borders and lockdowns within Australia. This trend occurred across the country (Buckle et al, 2020). The rental market peaked in the December quarter of 2020 (about six months on from the start of lockdowns) at 3,313 active bonds.

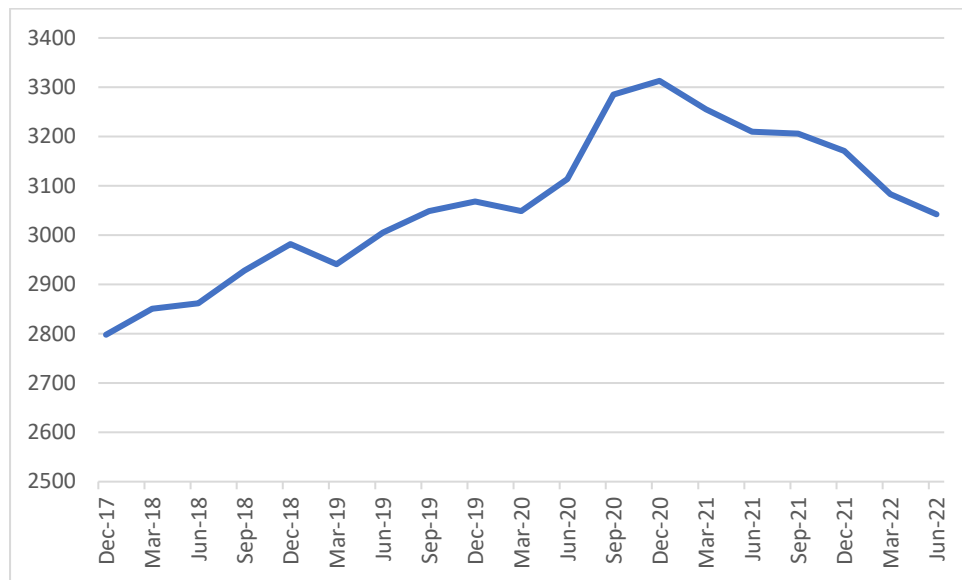
Since the last reporting period from the Urbis EIA (March 2021), the rental market has continued to shrink, losing over 200 rental properties by the June quarter 2022 (see Figure 1). The loss is likely to be a combination of of some properties returning to the short-term rental market, and owner-occupiers purchasing properties that were previously in the long term rental market, as well as some other factors. Unsurprisingly, as supply has shrunk,

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<sup>2</sup> Note the measure will underestimate the size of the market by the number of vacant rental properties.

rents have risen – with the median rent rising from \$710 per week to \$775, or by about 9 percent, over this period.

**Figure 1. The total size of the Byron long-term rental market 2017-2022**



Source: Department of Communities and Justice (2022)

### **The Local Economy**

Since the Urbis report was completed, unemployment rates have dropped in Byron Bay. The rate in June 2022 was 4.4%, a reduction from the 6.8% rate in March 2021 (National Skills Commission, 2022). Various media reports have highlighted the difficulties employers face in finding staff (see, for example, Read (2022)).

### **Short-term Rentals**

It is not possible to replicate the method used in the EIA report to provide listings of short-term rental properties. One source of confusion is that the EIA (eg in Chart 2.25) refers to the total number of listings advertised over a long period rather than the listings at a point in time. The listings also include listings from two platforms and it is not clear if the authors attempted to remove duplicates where properties are listed on both platforms. This approach will result in larger numbers of listings rather than looking at listings at a particular point in time from one platform.

The other issue that inflates the number of non-hosted dwellings in the EIA is the definition of host and non-hosted. The EIA refers to non-hosted accommodation as listings where the entire dwelling is available to a potential STRA guest. However, in the NSW registration system a dwelling which sits on the same lot as their primary residence (eg a granny flat) is categorized as a hosted dwelling.

Data from InsideAirBnB<sup>3</sup> shows that listings have continued to show seasonal patterns similar to Figure 2.24 of the EIA and while listings have recovered from their pandemic slump, they have not yet returned to pre-pandemic levels.

### **The potential conversion of properties to the long term rental market**

Reliable estimates of the number of properties that will convert to the long-term market are difficult to produce. The accuracy of surveys undertaken even during the EIA process is limited due to the bias of respondents trying to influence policy. If people are surveyed during a period of active consideration of a policy change which will impact negatively on the respondent's income, the normal tendency is for them to provide answers that will discourage the change. For example, landlords asked what they would do if Governments made tenancy law more "tenant" friendly, claim they will sell their properties. However, despite ongoing reform to tenancy laws in Australia there is little evidence of sales occurring in any widespread manner (Martin et al, 2022).

For this reason, surveys of STRA owners reported in submissions which report a very small crossover to long term rental should be interpreted with caution. By way of contrast, some "anti" planning proposal submissions suggested that STRA owners would move to 6-8 month leases. However, the conversion numbers reported in the EIA and repeated in the planning proposal might be optimistic due to the methods used to estimate the total number of STRA properties (see above). When STR landlords had their income reduced by the pandemic there was only a 9% increase in the size of the long-term rental market or about 260 properties. If there are about 1,300 non-hosted properties registered via the Planning Portal in Byron and not all of them will be impacted by the proposed changes (eg if they are in the 365 day precincts), the change to the long-term rental market may be less than suggested in the planning proposal.

However, it must be remembered that even small changes in the number of rental properties available on the market can have a significant impacts on rents. Rents are influenced by the size of the vacancy rate (Saunders and Tulip, 2019). In a market of about 3,000 long-term rental properties, a change as small as 30 properties can move the vacancy rate by 1%. This can have a significant impact on private rental rates. For example, the addition of only 70 properties can move rents from significant increases to stable rents. The pandemic has shown that a change in supply of a few hundred properties in Byron Bay generated significant decreases in rents (although this was also due to a reduction in demand as Byron renters lost employment and therefore income). The clear message from the EIA survey is that the 180-day cap would have minimal impacts on the long-term rental market.

**A further point is that the planning proposal is not just about encouraging the conversion of existing STR properties to long-term rentals but also to provide a signal to future**

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<sup>3</sup> Inside Air BnB collects data on AirBnB by scraping the AirBnB website. Its data is available on [www.OutsideAirBnB.com](http://www.OutsideAirBnB.com)

**investors in the Byron residential property market that long-term rental is a better option.**

Without this signal the long-term rental market may continue to deteriorate (ie the shrinking long-term rental market trends shown in Figure 1 might continue).

### **Task 3. The 365-day precinct boundaries**

A number of submissions raised the issue that their property was just outside the council STRA precincts, and they argued that the boundary should be moved to include their property.

It is difficult to comment on the precinct boundaries without detailed local knowledge, but it is important that there is a sound justification for setting the boundaries based on principles that can be understood by the major stakeholders.

### **Task 4. Responding to submissions where EIA expertise is required**

It is not surprising that there are a large number of submissions critical of the planning proposal given the number of impacted property owners. The submissions focusing on economic impacts make the following points<sup>4</sup>:

1. The basis of the Byron Bay economy is tourism and the changes will have a negative impact on tourism
2. The largest impact will be on the workers in businesses that support STRA such as cleaning, lawnmowing etc
3. Very few properties will convert to long-term rental so what is the point of the change
4. Many STRA properties are expensive and so any conversion to the long-term rental market is not likely to benefit households looking for affordable housing
5. There are plenty of long-term rental properties available for rent so there is no need to support that market
6. The differences between the NSW Government figure on non-hosted STRA and the estimates in the Planning proposal (and the EIA) suggests Council does not know what it is doing
7. The 365 boundaries should be adjusted to include the submission author's property
8. The changes will ruin future plans (often a retirement plan) because future income will go down
9. The proposed changes lack transparent economic modelling to support them.

Many of the submissions are gloomy about the future and think the changes will lead to a downturn in the tourism economy.

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<sup>4</sup> Only a small subset of the submissions were read but the Engagement Report by Locale Consulting supported this list.

Responses to these comments are as follows:

1. *The basis of the Byron Bay economy is tourism and the changes will have a negative impact on tourism*

Tourism is a central plank of the Byron Bay economy but the submissions overestimate the negative economic impacts of the proposed changes. The EIA finds the planning proposal will generate reasonably small changes in revenue and tourism activity largely because of the nature of adjustments in the market. The first adjustment is that the occupancy rate will increase as fewer properties are advertised. This will help make ensure any reductions in tourist numbers are relatively small. The second adjustment is that nightly rates will increase. This will help to compensate property owners who end up renting their property for a smaller number of days. It's also likely the commercial accommodation sector will increase the number of beds they provide. In fact, the EIA suggests that under the current planning proposal option there will be a reduction in annual revenue of less than one percent (see p137 of the EIA).

2. *The largest impact will be on the workers in businesses that support STRA such as cleaning, lawnmowing etc*

This observation is appropriate. However, given the size of the unemployment rate it is likely that any displaced workers will be able to find alternative employment.

3. *Very few properties will convert to long-term rental so what is the point of the change*

The numbers of properties converting to long term rental which are suggested in the EIA and repeated in the Planning proposal do appear to overestimate the likely change, largely because of their estimates of the number of non-hosted properties. However, as explained above even a small change in the number of long term rental properties could have a significant benefit for renters in Byron which is particularly important because the rental market does appear to be shrinking. It is also important to provide a strong signal to future investors that their focus should be on the long term rental market.

4. *Many STRA properties are expensive and so any conversion to the long-term rental market will of no benefit to households looking for affordable housing*

This is a common misconception about how housing markets operate. When there is a shortage of rental stock, households with higher incomes take up more affordable properties, shutting lower income households out of the market. This process is well described in Hulse et al (2014). Providing higher income rental stock can help free up cheaper stock by removing some "competition" from the market.

5. *There are plenty of rental properties available for rent so there is no need to support that market*

Whether rental housing markets have properties available is not the point. There is always a perception that properties are available since new properties come on the market, leases end and tenants turnover or move out of the market. What is important is the size of the vacancy rate – which is a snapshot of the total number of vacant properties divided by the total private rental market. Unless the vacancy rate is at least 2.5% you tend to get upward pressures on rents. Looking at the listed properties in the Byron Bay LGA, the vacancy rate is less than 2 percent (despite the advertised properties on real estate website<sup>5</sup>) so keeping upward pressure on the supply of rental properties is an important strategy.

6. *The council do not know what they are doing because of the differences between the NSW Government figure on non-hosted STRA and the estimates in the Planning proposal (and the EIA).*

The estimates of non-hosted properties in the EIA and the NSW Government's registration list of non-hosted properties are different for the reasons listed above. The other confounding issue is that some STRA properties have been converted to the long-term rental market due to the NSW Government's support for households impacted by the floods. These STRA owners may register with the NSW Government after their property's current lease expires.

7. *The 365 boundaries should be adjusted to include my property. This will help reduce any negative economic impacts of the planning proposal.*

As mentioned above in Task 3 there may be some opportunities to adjust the 365-day precinct boundaries.

8. *Future plans (often a retirement plan) have been ruined because future income will go down.*

There may be genuine hardship cases that should access Council hardship programs. However, some submissions seem to be from recent purchasers who should have been aware of the long-standing desire by the Council to reduce the availability of STRA and this information could have been factored in as a business risk.

9. *The lack of transparent economic modelling to support the changes.*

The Urbis EIA provides detailed data on the likely impact of the planning proposal changes so I am not certain of the source of this concern.

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<sup>5</sup> Note that some listings on real estate web sites aren't vacancies but rather a notice that the property will become vacant in the future.



## **Task 5. Tourism Australia estimates**

Various anti-planning proposal supporters have made claims that the planning proposal will reduce business income by \$267 million per year according to Tourism Australia figures (see for example Swift (2022) which includes the statement. "Tourism Research Australia's national and international visitor survey shows that the 90-day limit would hurt the local economy by \$267 million per year.")

Tourism Australia data report that for 2019 total tourism expenditure was \$857 million with \$749 million being from overnight visitors. The accommodation used by short-term rental providers (it was not separately identified) could have been 43% of this total. To reach a figure of \$267 million per annum the STRA sector would have to be almost wiped out by the Planning Proposal which seems very unlikely given that hosted STRA is not directly impacted. Moreover, as described above, the Urbis EIA reports that the planning proposal will generate a small decrease in revenue for the sector (3% per annum - see page 137 of the EIA). Hence it is difficult to validate these claims from the existing evidence.

## References

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