Parliamentary Budget Office

90-day cap on short stay accommodation

Impact on property owners

OFFICIAL

Parliamentary Budget Office

We provide independent fiscal, economic and financial advice to all members of the Parliament of Victoria. Our objective is to inform policy development and public debate in parliament and the community.

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In brief

Short stay accommodation refers to apartments, houses and rooms rented through online providers, such as Airbnb and Stayz. Victoria's short stay accommodation industry has grown rapidly over the past decade. The Victorian Government estimates there are more than 36,000 short stay properties in Victoria, with more than 29,000 of those properties being entire homes.

The Victorian Government has announced plans to introduce a 7.5% short stay levy on online platforms' total revenue, to apply from 1 January 2025. The Victorian Greens have proposed an alternative 90-day cap on the number of nights per year a short stay property can operate.

In this advice we compare the potential impacts of a 90-day cap on incentives for rental property owners, particularly owners who rent their property more than 90 days per year and do not use the property for their own accommodation. We:

- consider how a 90-day cap would affect incentives for property owners to lease properties on a short stay basis
- provide cameo analysis of potential impacts for 2 hypothetical rental properties.

Due to data limitations, we do not provide quantitative estimates of potential impacts on the number of properties leased on a short stay basis, nor broader impacts on the rental market.

Short stay accommodation in Victoria

Incentives for property owners

In most circumstances, Victorian landlords lease their properties on a long-term rental basis. Long-term rental arrangements offer property owners a higher certainty of return and lower operating costs.

The 2 key incentives for property owners to lease properties on a short stay basis are:

- higher rates of return, depending on the location of their property and prevailing market conditions
- greater flexibility of property use, with owners able to use properties for other activities in parts of the year (such as owner occupation or holiday accommodation).

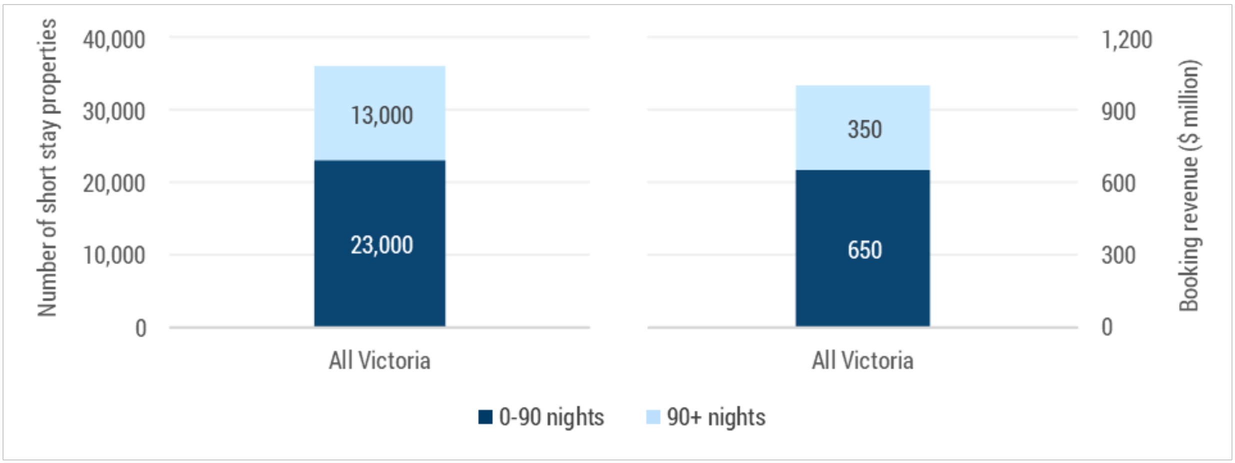
An individual property owner's decision on the use of their property will depend on a broader range of factors, including their own financial circumstances.

Victorian Greens' proposed 90-day cap

The Victorian Greens' proposed cap on short stay accommodation would limit the number of nights that a short stay property can be leased to 90 days.

We estimate the number of properties operating more than 90 nights and the total booking revenue from bookings after the 90th booked night based on the Victorian Government's estimates of the number of short stay properties and booking revenue in Victoria.

Figure 1 – Short stay accommodation listings in Victoria, by nights rented annually



Source: Parliamentary Budget Office.

We estimate that around:

- 64% of short stay properties (23,000 properties) are leased for less than 90 nights per year, and would not be affected by the cap
- 36% of short stay properties (13,000 properties) are rented for more than 90 nights per year.

A materially greater proportion of properties operate for more than 90 nights in metropolitan Melbourne (40%) than in regional Victoria (32%). This suggests the cap may have a greater impact on owners of short stay properties in metropolitan Melbourne than in regional Victoria.

Short stay property owners who could no longer lease out their properties for more than 90 days would face reduced returns. Some of these owners may seek alternative uses for their properties, including long-term rental arrangements.

Property owners who would face reduced returns from the cap and who do not use their property for other purposes (such as for personal accommodation) may be particularly incentivised to seek alternative uses for their property.

Property owners who operate for 90 nights or fewer would not be materially affected by the cap. This may include owners who:

- benefit from higher nightly rates over limited holiday seasons – for example in coastal locations during summer – which may result in the policy having a greater impact on owners in metropolitan Melbourne
- personally use their properties for parts of the year and prefer to lease their properties for less than 90 days.

Cameo analysis

We considered the potential impacts of the proposed 90-day cap for 2 hypothetical short stay properties. These are examples only and cannot be generalised.

Figure 2 – Cameo summary

	Impact of 90-day cap
3-bedroom house on the Mornington Peninsula rented for 120 nights	The 90-day cap would provide a significant incentive for owners of seasonal properties usually booked for more than 90 days per year to find an alternative use for the property, including switching to the long-term rental market.
2-bedroom apartment in the Melbourne CBD rented for 200 nights	The 90-day cap would provide a significant incentive for property owners with high occupancy rates to find an alternative use for properties, including switching to the long-term rental market.

Source: Parliamentary Budget Office.

About this request

Request

On 13 March 2024, Dr Samantha Ratnam MP, Member for Northern Metropolitan, asked the Parliamentary Budget Officer to provide independent advice evaluating the impacts of a 90-day short stay accommodation cap on landlords' incentives to list short-stay properties on the long-term rental market. The request focussed on the impact of the policy on properties listed for more than 90 days a year, which the property owner did not otherwise use for their own accommodation.

Scope

In this advice we:

- consider how the proposed 90-day cap could affect incentives for landlords to lease properties on a short stay basis
- provide cameo analysis for 2 hypothetical rental properties.

Limitations

We requested information from the Victorian Public Sector regarding short stay accommodation properties in metropolitan Melbourne and regional Victoria, but the response was confidential. As such, we prepared this advice using publicly available information.

Our estimates relating to the composition of short stay accommodation properties in Victoria are highly sensitive to uncertainties associated with public data on short stay accommodation properties. There is significant uncertainty around:

- the total number of short stay accommodation properties currently operating in Victoria
- the total value of booking revenue from short stay accommodation in Victoria
- the proportion of short stay accommodation properties located in metropolitan Melbourne and regional Victoria
- the number of nights that each Victorian short stay property operates for.

Due to data limitations, we do not estimate the total number of short stay properties that would cease operating as short stay accommodation under the policy, or the total number of short stay properties that would shift to longer-term rental markets. We estimate the total number of short stay properties that may be affected, but this does not represent the number that would shift from short stay to long-term rental arrangements. We are unable to determine the number of properties that landlords lease for more than 90 days and do not use as personal accommodation for the remainder of the year.

This advice does not include analysis of

- potential impacts on property owner behaviour due to interactions between short stay accommodation policy options and other property tax instruments
- potential impacts of the policy on housing prices, and the subsequent impact that this could have on the decisions of property owners.

We prepared this advice on 24 April 2024.

Background

Short stay accommodation refers to apartments, houses and rooms rented through online providers, such as Airbnb and Stayz. Guests may book these properties for days or months at a time.

Victoria's short stay accommodation industry has grown rapidly over the past decade. The Victorian Government estimates there are more than 36,000 short stay properties in Victoria, with more than 29,000 of those properties being entire homes. The Victorian Government estimates that short stay accommodation in Victoria generates around $1,000 million in booking revenue annually.

Other estimates suggest the Victorian Government's figures may be conservative. Some estimates within the short stay accommodation industry suggest there may be around 40,000 to 50,000 short stay properties in Victoria. Consulting firm Urbis released a report in February 2024 using Airbnb data which estimated that there were almost 50,000 entire dwellings listed on Airbnb in Victoria.

Urbis's report also included survey responses from Airbnb hosts indicating around 62% of hosts primarily use their properties for their own personal use when not listing as short stay accommodation (including as a principal place of residence, second/holiday home, or for use of family and friends).

Victorian Government's 7.5% short stay levy

In September 2023, the Victorian Government announced the 7.5% short stay levy as part of its Housing Statement, to apply from 1 January 2025. The planned levy would apply to short stay accommodation platforms' total booking revenue. The government has not yet introduced legislation into parliament, meaning the exact policy specifications are uncertain.

The Housing Statement specified that:

- revenue from the short stay levy would be paid to Homes Victoria, with 25% of funds to be invested in regional Victoria
- local council charges on short stay accommodation would be removed.

Figure 3 – Short stay levy revenue, 2023-24 Victorian Budget Update

$ million	2023–24	2024–25	2025–26	2026–27
Short stay levy revenue	-	37.5	75.0	75.0

Source: Department of Treasury and Finance.

The Victorian Government expects the short stay levy, as planned, will raise around $37.5 million in 2024–25, rising to $75.0 million per financial year from 2025–26.

Short stay accommodation in Victoria

In this section	This section considers how the proposed 90-day cap would affect property owners' incentives to lease properties on a short stay basis compared to long-term rental arrangements. We consider: ▪ incentives for property owners to lease properties on a short stay basis ▪ the distribution of short stay accommodation between metropolitan and regional areas ▪ impacts of the proposed 90-day cap in metropolitan and regional areas.

Incentives for property owners

In most circumstances, property owners lease properties based on long-term arrangements, reflecting more consistent income streams and generally lower costs.

However, there are 2 key incentives for landlords to lease properties as short stay accommodation:

- higher rates of return, depending on the location of their property and prevailing market conditions
- greater flexibility of property use, with owners able to use properties for other activities in parts of the year (such as owner occupation or as holiday accommodation).

An individual property owner's decision on the use of their property will depend on a broader range of factors, including their own financial circumstances.

Returns to property owners

We compared returns for property owners leasing properties on a short stay basis compared to long term arrangements, based on available data. Our estimates are highly sensitive to uncertainties associated with public data on short stay accommodation properties.

Returns on a single booked night are generally much higher for short stay accommodation than for long-term rental accommodation, but after accounting for the number of booked nights, the difference in average weekly returns is less marked.

Figure 4 – Rental revenue per property in Victoria, December 2023

Location	Long term rental median weekly rent	Short term rental average weekly revenue	Short term rental average nights per week rented
Metropolitan Melbourne	$530	$523	3.1
Regional Victoria	$430	$547	2.8
All Victoria	$505	$534	2.9

Note: Estimated short term rental data is not necessarily representative of a typical property, as the nightly rate and number of nights rented varies greatly from property to property. Data for long-term rental and short stay accommodation is for December 2023.

Source: Department of Families, Fairness and Housing, Parliamentary Budget Office

We estimate that:

- the average weekly booking revenue from short stay accommodation in Victoria was around $534 per property, compared to median weekly rents of $505 for long-term rental arrangements.
- weekly revenue for regional properties was significantly higher for average short stay accommodation ($547) than median long-term rental revenue ($430)
- weekly revenue for metropolitan Melbourne properties was broadly similar between median long-term rental ($530) and average short stay accommodation ($523).

We estimate that average weekly booking revenue would be slightly higher in regional Victoria than metropolitan Melbourne, despite metropolitan Melbourne having a higher average of nights rented per week. This reflects higher nightly rates on average for regional accommodation compared to properties in metropolitan Melbourne, likely due to higher demand in peak tourism seasons.

The incentives for property owners to lease on a short stay basis reflect higher net returns, or gross returns less costs. Costs for long-term rental and short stay accommodation vary significantly depending on how much work property owners take on themselves.

Long-term rental arrangements often include payments to property agents, while owners of short stay accommodation face costs such as service fees and utilities. Some property owners administer, operate and clean properties themselves, while others use agents and cleaning services.

Flexible property use

Property owners who lease on a short stay basis have greater flexibility around the use of their property than those who offer long-term leases. They can block specific dates for personal use, allowing them to reside or holiday in their property while also earning income from it.

Property owners who may benefit from this flexibility include owners of properties:

- in a seasonal holiday location, who can visit their property during planned visits and can also earn an income stream from short stay bookings
- who use their properties as a workspace for part of the year, and can also earn an income stream from short stay bookings when not using the property
- who reside in another city domestically or internationally for part of the year, and can also earn an income stream from short stay bookings when not occupying the property.

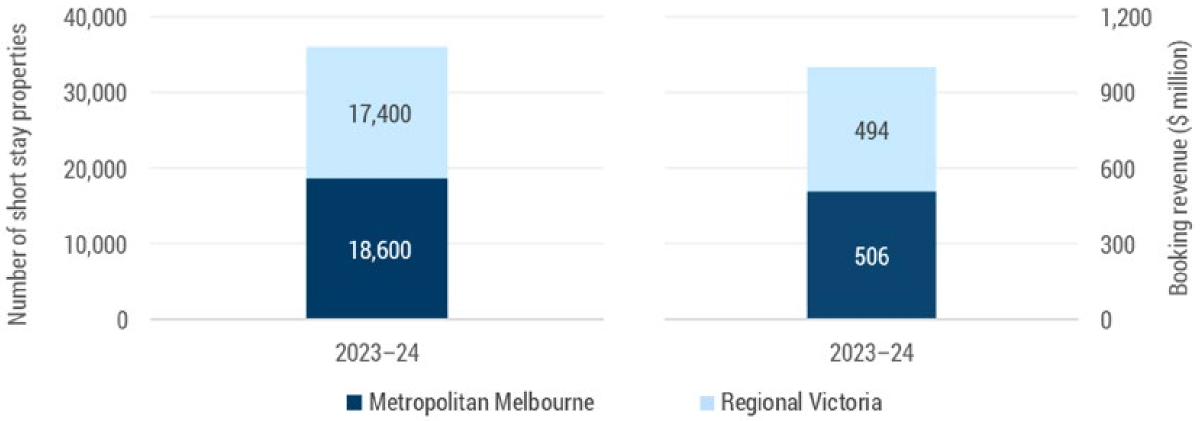
For each of these types of property owners, short stay accommodation provides flexible arrangements that long-term rental arrangements generally cannot.

Metropolitan and regional short stay accommodation

Short stay accommodation is disproportionately represented in regional areas, reflecting its use for tourism purposes. It is worth noting that the number and type of short stay accommodation properties differ greatly in regional areas, largely based on the level of tourism in the area.

Based on the 36,000 short stay accommodation properties that the Victorian Government reports are operating in Victoria, we estimate that around 18,600 properties would be in metropolitan Melbourne (52%), with the remaining 17,400 properties (48%) located across regional Victoria.

Figure 5 – Short stay accommodation properties in Victoria



Source: Parliamentary Budget Office.

We estimate that around $506 million of total short stay accommodation booking revenue would come from properties in metropolitan Melbourne, while around $494 million would come from properties in regional Victoria.

Short stay accommodation represents around:

- 3% of the total rental stock in metropolitan Melbourne
- 14% of the total rental stock in regional areas.

The proportion of rental stock operating as short stay accommodation in regional areas is not necessarily indicative of all regional towns, as this proportion would vary greatly between regional areas.

Impacts of the Victorian Greens' proposed 90-day cap

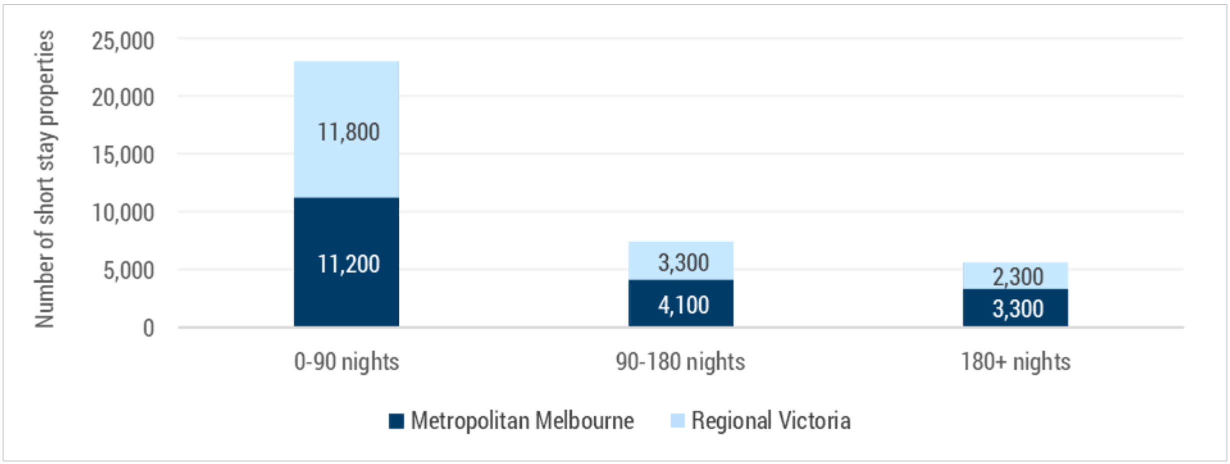
Caps on short stay accommodation limit the number of nights that a short stay property can operate. Governments in large cities have generally introduced this type of regulation to promote the supply of long-term rental properties. The Victorian Greens' proposed cap would limit short stay properties' operation to 90 nights per year.

The proposed 90-day cap could impact the decisions of short stay rental property owners. It may result in some property owners seeking alternative uses for their properties, including long-term renting. However, the impacts of the policy would vary between properties.

We estimate that:

- around 23,000 of Victoria's short stay accommodation properties (64%) are rented for 90 nights or less per year, and these properties would not be affected by the cap
- around 13,000 short stay properties are rented for more than 90 nights, of which:
  - 7,400 would be rented for between 90 and 180 nights (21%)
  - 5,600 would be rented for more than 180 nights (16%).

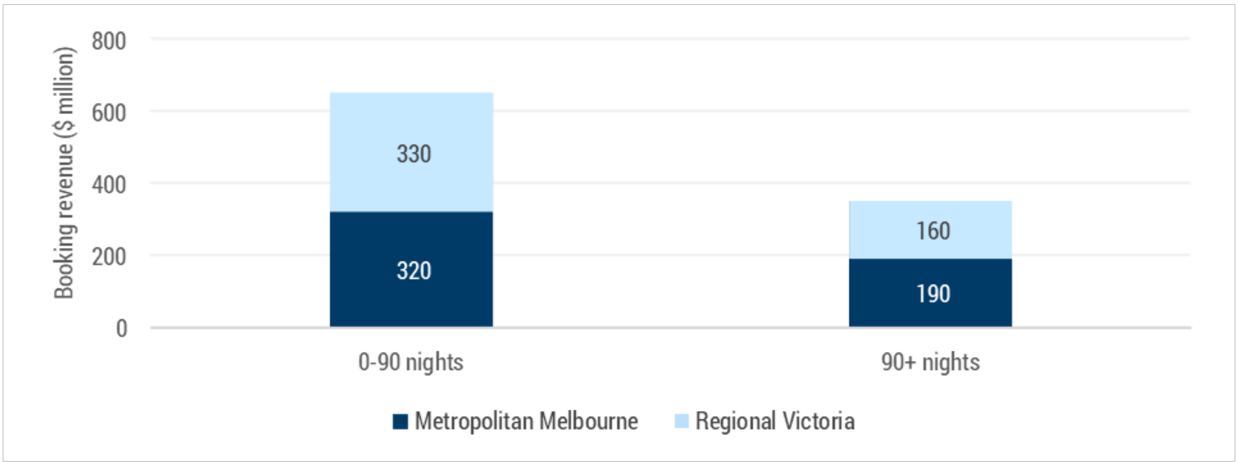
Figure 6 – Short stay accommodation properties, by number of nights rented per year



Source: Parliamentary Budget Office.

A larger proportion of short stay accommodation properties operate above 90 nights per year in metropolitan Melbourne (40%), compared to regional Victoria (32%). This likely reflects the greater seasonal demand in many regional locations. This indicates that a 90-day cap on bookings would likely impact a greater proportion of properties in metropolitan Melbourne than in regional Victoria.

Figure 7 – Short stay accommodation booking revenue, by booking night



Source: Parliamentary Budget Office.

We estimate that around:

- $650 million of short stay accommodation booking revenue (65%) is derived from property bookings of 1 to 90 nights, and would not be affected by the proposed cap
- $350 million in booking revenue (35%) is derived from property bookings beyond a property's 90th booking night.

We estimate that short stay accommodation properties located in metropolitan Melbourne would have a higher proportion of revenue from bookings after the 90th booked night (37%) than properties in regional Victoria (33%). This indicates that a 90-day cap on bookings would likely impact a greater proportion of bookings in metropolitan Melbourne than in regional Victoria.

Many short stay property owners who could no longer lease out their properties for more than 90 days would face reduced returns. Some would seek alternative uses for their properties, including long-term rental arrangements. Property owners who would face reduced returns from the cap and who do not use their property for other purposes (such as for personal accommodation) may be particularly incentivised to seek alternative uses for their property.

Property owners who operate for 90 nights or less, and would not be materially affected by the cap, may include owners who:

- benefit from higher nightly rates over limited holiday seasons – for example in coastal locations during summer – which may result in the policy having a greater impact on metropolitan Melbourne
- personally use their properties for parts of the year and prefer to lease their properties for less than 90 days.

These types of properties are likely to be relatively more prevalent in regional Victoria than metropolitan Melbourne.

Cameo analysis of 90-day cap impacts

In this section	This section outlines 2 hypothetical scenarios for property owners facing the proposed 90-day cap. We consider a: ▪ 3-bedroom house on the Mornington Peninsula booked for 120 nights per year ▪ 2-bedroom apartment in the Melbourne CBD booked for 200 nights per year.

The cameos are based on 2023 data and aim to estimate the average relative costs to property owners of each rental market. These cameos assume that property owners are contracting services for property management.

We describe the impact of the 90-day cap on incentivising a property owner to switch to the long-term rental market as either a:

- marginal incentive: where the policy lowers the return offered by short stay accommodation, but where the owner may not be entirely motivated by maximising returns
- material incentive: where the policy lowers the return offered by short stay accommodation below what could be earned on the longer-term rental market
- significant incentive: where the policy lowers the return offered by short stay accommodation to a level significantly below what could be earned on the longer-term rental market.

The cameos are specifically focussing on properties which landlords lease for more than 90 days per year and do not use for their own accommodation.

These are examples only and cannot be generalised across all properties in each location. Costs would likely significantly differ from property to property, based on specific circumstances.

Mornington Peninsula property

The Mornington Peninsula is a regional tourism destination. While there is year-round demand, this is likely to be higher in summer. Short stay accommodation represents a relatively large share of the accommodation market, and property owners may be able to increase their nightly rates to offset the impact of the proposed cap.

Cameo – Impact of proposed cap on Mornington Peninsula property

George owns a 3-bedroom house near Mornington. He currently lists the property on Airbnb 120 nights per year at an average rate of $400 per night. We estimate that:

- George's yearly income from listing his property on short stay platforms after fees and costs is $33,380.
- If George decided to rent his property on the longer-term rental market, he could expect to make $28,080 per year after agent fees and costs.

90-day cap

Under the Victorian Greens' proposed 90-day cap on short stay accommodation, George would be restricted to listing his property for 90 nights, instead of 120 nights, reducing his annual income by $8,640, to $24,740. George may be able to increase his nightly rate to some extent, as the cap may

Cameo – Impact of proposed cap on Mornington Peninsula property

result in upward pressure on short stay prices. Nonetheless, the proposed cap would provide a significant incentive for George to convert his property from short stay to the long-term rental market.

Melbourne CBD property

There is year-round demand for accommodation in metropolitan Melbourne, but short stay accommodation represents a relatively smaller share of the accommodation market. Property owners in these circumstances may be less able to increase the nightly rates charged to consumers.

Cameo – Impact of proposed cap on Melbourne CBD property

Soraya owns a 2-bedroom apartment in the Melbourne CBD. She currently lists the property on Airbnb 200 nights per year at an average rate of $250 per night. We estimate that:

- Soraya's yearly income from listing her property on short stay platforms after fees and costs is $35,320.
- If Soraya decided to rent her property on the longer-term rental market, she would expect to make $31,880 per year after agent fees and costs.

90-day cap

Under the Victorian Greens' proposed 90-day cap on short stay accommodation, Soraya would be restricted to listing her property for 90 nights, instead of 200 nights. This 110-night difference would reduce her annual income by $20,070, to $15,250. Soraya would have a significant incentive to find alternative uses for the property, including converting her property to the longer-term rental market.

Attachment A – Assumptions and approach

In this section we provide the assumptions and approach we used to estimate:

- the number and composition of short stay properties in Victoria
- the impacts of short stay regulations on property owners in hypothetical scenarios.

Assumptions

When estimating the distribution of short stay accommodation properties in metropolitan Melbourne and regional Victoria, we made the following assumptions:

1. The proportion of short stay accommodation properties in metropolitan Melbourne and regional Victoria would be unchanged over the forecast period.
2. The proportion of short stay accommodation revenue from properties in metropolitan Melbourne and regional Victoria would be unchanged over the forecast period.

When estimating the impacts of short stay regulations on property owners in hypothetical scenarios, we made the following assumptions:

1. Short stay accommodation income per property, less costs, would be the total short stay booking revenue of each property, less the estimated value of fees charged by short stay platforms and the estimated cleaning and utilities costs of the property owner.
2. Long-term rental income per property, less costs, would be the total rental revenue of each property, less the estimated value of agent fees charged to the property owner.

Approach

When preparing this advice, we:

- estimated the proportion of total short stay accommodation properties in metropolitan Melbourne and regional Victoria
- estimated the proportion of total short stay accommodation revenue from properties in metropolitan Melbourne and regional Victoria
- estimated the average short stay accommodation revenue per property for metropolitan Melbourne and regional Victoria
- estimated the nightly occupancy of short stay accommodation properties in metropolitan Melbourne and regional Victoria, based on Inside Airbnb data
- estimated the booking revenue of short stay accommodation properties after the 90th booked night in metropolitan Melbourne and regional Victoria.

When preparing the cameos in this advice, we:

- estimated the total booking revenue from a typical short stay accommodation property and the total rental revenue from a typical long-term rental property in each location
- estimated the costs associated with operating a typical short stay accommodation property and a typical long-term rental property in each location

- estimated the total income that a property would generate as short stay accommodation and as a long-term rental, by subtracting the estimated costs in each rental market from the estimated total property revenue in each rental market, for each location
- estimated the total short stay accommodation income of each property under the Victorian Greens' proposed 90-day cap to evaluate each policy's impact on the property owner's incentives.

Attachment B – Data sources

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