Parliamentary Budget Office

The Victorian Government's 7.5% short stay levy

Impact on property owners

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. In this advice we consider the potential impacts of the planned short stay levy on incentives for rental property owners. We:

- consider how the 7.5% short stay levy would affect incentives for property owners to lease properties on a short stay basis
- provide cameo analysis of potential impacts for 4 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, or broader impacts on the rental market.

Victorian Government's 7.5% short stay levy

The Victorian Government's planned 7.5% short stay levy is charged based on total online platform revenue. The Victorian Government expects the short stay levy will raise around $37.5 million in 2024–25, rising to $75.0 million per financial year from 2025–26.

Figure 1 – 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.

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 landowners 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.

Average short stay levy payments

We estimate the average annual booking revenue and average annual short stay levy payable per property based on the Victorian Government's estimates of the number of short stay properties and booking revenue in Victoria.

Figure 2 – Average booking revenue and short stay levy liability per property in Victoria

Short stay accommodation properties in Victoria	Dollars ($)
Average annual booking revenue per property	27,778
Average annual short stay levy payable per property	2,083

Source: Parliamentary Budget Office.

We estimate that the average annual booking revenue per short stay property in Victoria is around $27,778 per year, resulting in an average short stay levy liability of $2,083 per property.

We expect that most property owners would absorb some of this tax burden through a reduction in returns, and pass a portion to the consumer through higher prices. The extent of this pass through will reflect market conditions, including the level of competition from hotels and other accommodation services, and from other tourism destinations. Where properties are only marginally more profitable as short stay accommodation than as long-term rentals, the levy may result in landlords seeking alternative uses for their properties, including switching to long-term rental arrangements.

Cameo analysis

We considered the potential impacts of the planned 7.5% short stay levy for 4 hypothetical short stay properties. These are examples only and cannot be generalised.

Figure 3 – Cameo summary

	Impact of short stay levy
3-bedroom house on the Mornington Peninsula rented for 120 nights	Owners of properties in seasonal holiday locations may be able to pass on the levy through higher rates, depending on local market conditions. Nonetheless they would likely face a marginal incentive to switch to long-term rental arrangements.
2-bedroom apartment in the Melbourne CBD rented for 200 nights	Owners of properties in Melbourne may be less able to raise rates, facing greater competition from other accommodation services such as hotels. They would likely face a material incentive to switch to long-term rental arrangements.
3-bedroom house in Mansfield (regional) rented for 90 nights and used by resident as a holiday house	Owners of properties in seasonal holiday locations who also use their property as a holiday home would face a marginal financial incentive to switch to long-term rental arrangements; however, their choice may be determined by their recreational use of the property.
1-bedroom apartment in Melbourne CBD rented for 60 nights and used by resident for remainder of year	Owners of properties in the Melbourne CBD may be less able to raise rates, facing greater competition from other accommodation services such as hotels. They would face a marginal incentive to switch to long-term rental arrangements; however, their choice may be determined by their use of the property as a residence.

Source: Parliamentary Budget Office.

About this request

Request

On 13 March 2024, Dr Samantha Ratnam MP, Member for the Northern Metropolitan region, asked the Parliamentary Budget Officer to provide independent advice evaluating the impact of the Victorian Government's 7.5% short stay levy on landlords' incentives to return short-stay properties to the long-term rental market.

Scope

In this advice we:

- consider how the 7.5% short stay levy would affect incentives for property owners to lease properties on a short stay basis
- provide cameo analysis for 4 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.

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
- the impact of Homes Victoria's spending of short stay levy revenue on social housing projects
- 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 figures may be conservative. 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. Other estimates within the short stay accommodation industry suggest there may be around 40,000 to 50,000 short stay properties in Victoria.

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 4 – 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 7.5% short stay levy 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 short stay levy 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 5 – 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.

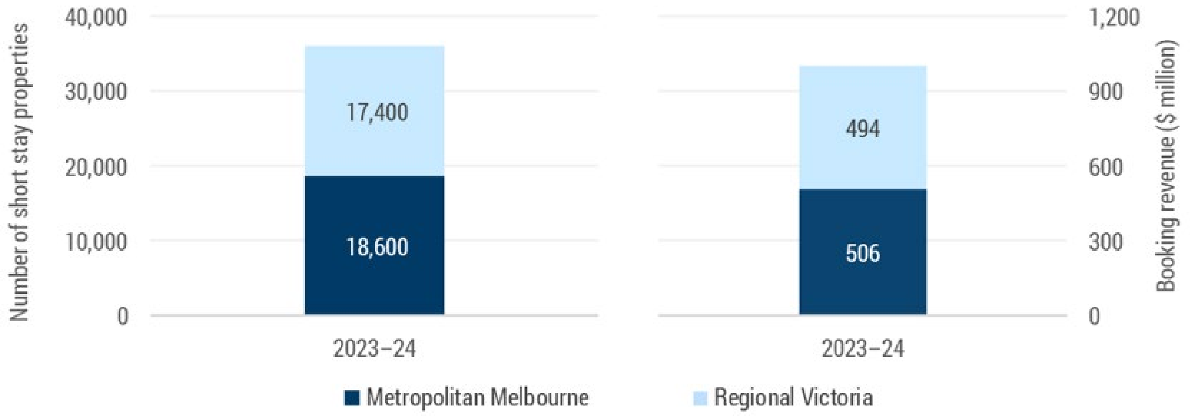
For each of these types of property owners, short stay accommodation provides flexible arrangements that long-term rental arrangements generally cannot.

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 across 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 6 – 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.

Average short stay levy payments

The 7.5% short stay levy, as planned, would apply to the total revenue of short stay accommodation platforms such as Airbnb and Stayz. The extent to which this levy generates revenue would depend on how broadly it applies in the passed legislation.

For the purposes of this analysis, we assume that the levy would apply broadly to the total revenue of short stay accommodation platforms, and that these platforms would pass the incidence of the tax through to property owners via increased service fees.

We expect that most property owners would absorb some of the tax burden through a reduction in returns, and pass a portion of the tax burden to the consumer through higher prices.

The extent of this pass through would reflect market conditions and vary by region. Areas where there is less competition from other accommodation services such as hotels, and where demand is less elastic, may be able to pass on more of the tax burden. This may be the case in popular holiday destinations such as the Mornington Peninsula and Surf Coast.

Figure 7 – Average annual booking revenue and short stay levy payable for short stay accommodation

Short stay accommodation location	Dollars ($)
Metropolitan Melbourne	
Average annual booking revenue per property	27,179
Average annual short stay levy payable per property	2,038
Regional Victoria	
Average annual booking revenue per property	28,418
Average annual short stay levy payable per property	2,131
All Victoria	
Average annual booking revenue per property	27,778
Average annual short stay levy payable per property	2,083

Source: Parliamentary Budget Office.

We estimate that:

- the average annual short stay levy payable across Victoria would be around $2,083 per property
- the average levy payable for regional properties ($2,131) would be slightly higher than for short stay properties in metropolitan Melbourne ($2,038)

To the extent that property owners cannot pass on the levy to consumers, this would affect their net returns and reduce the incentive to lease properties on a short stay basis. Where properties are only marginally more profitable as short stay accommodation, landlords may seek alternative uses for their properties, including switching to long-term rental arrangements.

Cameo analysis of levy impacts

In this section	This section outlines 4 hypothetical scenarios for property owners facing the 7.5% short stay levy. 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 ▪ 1-bedroom apartment in the Melbourne CBD booked for 60 nights per year ▪ 3-bedroom house in the Mansfield area booked for 90 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 short stay levy 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 (i.e. they may use the property themselves for part of the year)
- 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.

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 pass on a share of the levy to consumers.

Cameo – Impact of levy 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.

Impact of short stay levy

Under the Victorian Government's new short stay levy, George's online platform will likely pass on the $3,490 in levies, potentially reducing his net annual income from his property to $29,890. George would likely be able to increase his nightly rate to some extent, as the levy would likely result in a

Cameo – Impact of levy on Mornington Peninsula property

broad-based price increase. The levy would provide a marginal incentive for George to convert his property from short-term accommodation 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 small share of the accommodation market. Property owners in these circumstances may be less able to pass the levy on to consumers.

Cameo – Impact of levy 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.

Impact of short stay levy

Under the Victorian Government's new short stay levy, Soraya's online platform will likely pass on the $3,640 in levies, potentially reducing her net annual income from her property to $31,680. Soraya may be able to increase her nightly rate to some extent, although she faces competition from other accommodation services. The levy would provide a material incentive for Soraya to convert her property from short-term accommodation to the long-term rental market.

Split use metropolitan Melbourne property

Some property owners use their property as a residence for part of the year, and lease it as short stay accommodation for the rest of the year. In metropolitan Melbourne, short stay accommodation represents a relatively small share of the accommodation market, and property owners may not be able to pass a share of the levy to consumers.

Cameo – Impact of levy on split use Melbourne property

Maria owns a 1-bedroom apartment in the Melbourne CBD. She currently resides in the property most of the year and lists the property on Airbnb 60 nights per year at an average rate of $200 per night. We estimate that:

- Maria's yearly income from renting her property on short stay accommodation platforms after fees and costs is $6,860.
- If Maria decided to rent her property on the longer-term rental market, she would expect to make $23,440 per year after agent fees and costs.

Impact of short stay levy

Under the Victorian Government's new short stay levy, Maria is likely to pay an increased service fee to Airbnb worth around $870, potentially reducing the annual income derived from her property to $5,990. Maria may be able to increase her nightly rate to some extent, although she faces competition from other accommodation services. The levy would provide a marginal incentive for

Cameo – Impact of levy on split use Melbourne property

Maria to convert her property from short-term accommodation to the long-term rental market; however, her choice may be determined by her use of the property as a residence.

Split use property in Mansfield

Some property owners use their property as a holiday home, and lease it as short stay accommodation. Mansfield is a regional tourism destination with year-round demand, though this is likely to be higher during seasonal peaks. Short stay accommodation represents a relatively large share of the accommodation market, and property owners may be able to pass on a share of the levy to consumers.

Cameo – Impact of levy on split use Mansfield property

Jamie owns a 3-bedroom house in Mansfield. They currently use their property as a holiday home for 4 weeks a year, and list their property on Airbnb 90 nights per year at an average rate of $320 per night. We estimate that:

- Jamie's yearly income from renting their property on short stay accommodation platforms after fees and costs is $17,760.
- If Jamie decided to rent their property on the longer-term rental market, they would expect to make $23,700 per year after agent fees and costs.

Impact of short stay levy

Under the Victorian Government's new short stay levy, Jamie's online platform will likely pass on the $2,100 in levies, potentially reducing the net annual income from their property to $15,660. Jamie may be able to increase their nightly rate to some extent, as the levy is likely to result in upward price pressure for short stay accommodation in tourist locations. The levy would provide a marginal incentive for Jamie to convert their property from short-term accommodation to the long-term rental market; however, their choice may be determined by their use of the property as a holiday home.

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

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 Government's short stay levy to evaluate the policy's impact on the property owner's incentives.

Attachment B – Data sources

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