

## The Airbnb effect in Sydney and Melbourne

**Based on AHURI Final Report No. 305:**

Technological disruption in private housing markets: the case of Airbnb



### What this research is about

**This research looks at how short-term letting (STL) platforms like Airbnb, HomeAway and Booking.com are reshaping housing opportunity in private markets.**

**While Airbnb is not the only STL platform operating, it is one of the largest. The research analysed Airbnb listing data from Sydney and Melbourne to provide insights into the extent to which STL is contributing to housing affordability issues and to highlight the most effective responses available to regulators.**

### The context of this research

STL platforms have become big business, connecting millions of hosts and guests in cities around the world, while also triggering a range of unanticipated consequences including concerns about the amenity impacts and affordability. In response to such concerns, governments around the world are under increasing pressure to determine the best way to equitably and efficiently regulate the industry.

### Key findings

STL is not a new form of economic activity—hosts sharing their primary place of residence have long been a feature of urban housing markets (e.g. taking in lodgers, house sharing, B&Bs), however digital platforms have fundamentally changed the scale of this activity by making it more efficient, less risky and significantly reducing the costs involved.

The rapid growth of these platforms indicates that STL is likely to remain big business into the future. By mid 2018,

Airbnb claimed to have facilitated over 300 million guest arrivals in more than 5 million listings across 191 countries. In the year to January 2018, Australian Airbnb hosts turned over \$978 million in revenue, from over 6 million guest arrivals.

#### Beyond 'house sharing'

While platforms like Airbnb have made house sharing (i.e. renting out one or more rooms of an occupied house) more popular, they have also led to entire properties being let short term as a commercial enterprise. This provides housing investors with an alternative source of income to long term rental (LTR). It is clear many properties advertised on Airbnb and related platforms are now permanently available for STL. The research calls these 'commercial lets'.

#### STL in Australia

This research suggests that STL platforms are probably not significantly worsening rental affordability across our major cities as a whole, but are having an impact on rental properties in high-demand inner city areas with significant tourism appeal.

In these areas, two main factors—decreasing bond lodgement rates and increasing levels of property vacancy—point to the likelihood that STL is removing properties from the LTR market, thereby contributing to increasing unaffordability in the private rental sector.

While the city-wide affordability impact may be limited, those seeking long-term housing will face a market that is at best more complex and uncertain, and may also be moderately less affordable in some local areas.

#### Airbnb in Sydney

Within the Greater Sydney region, of a total of 23,121 listings in March 2018, 29 per cent (6,697) were categorised as being commercial, that is whole dwellings that are available for more than 90 days in the subsequent 12 months. Compared with the over 500,000 dwellings being rented across the Greater Sydney region, the total number of commercial Airbnb listings is insignificant by comparison.

However, there is an uneven geography of Airbnb listings. Analysing the number of commercial Airbnb listings by SA2 (i.e. the smallest statistical area used

by many ABS releases) for Greater Sydney reveals the concentration for different parts of Sydney. The eastern suburbs (e.g. Bondi, Bronte and Coogee), Darlinghurst and Manly have been the focus of Airbnb activity, which accounts for between 11.2 per cent and 14.8 per cent of rental housing stock.

The trend for reduced proportions of rental bonds in suburbs with high concentrations of Airbnb properties suggests it is having some impact on the number of bonds being lodged in these areas.

In addition, gains made in the overall stock of housing are not making their way into long-term housing options (e.g. Bondi Beach had a 3.9% growth in the number of dwellings, while owner-occupied housing declined) suggesting STL is adding to a package of incentives that are driving housing investment in parts of Sydney.

However, the rate of decline in bonds does not match the rate of growth in Airbnb listings in these areas, suggesting that some dwellings entering the Airbnb pool may not have otherwise been rented as LTR. Census data showing much higher than average rates of unoccupied dwellings compared to Greater Sydney suggests that there is an excess of dwellings deliberately not being used, even in the absence of Airbnb. This point is explored with some interviewees in this research suggesting that, given a choice, they would leave their dwellings empty rather than rent them out long term.

### Airbnb in Melbourne

Airbnb listings in Greater Melbourne have followed a similar trajectory to Sydney, with a surge in listings since August 2015, rising from a little under 5,000 to approximately 18,000 in February 2018.

The overall numbers of commercial Airbnb listings is small in comparison to the more than 470,000 rental properties across Greater Melbourne at the 2016 Census. Airbnb listings equate to 2 per cent of Melbourne's rental stock. Unlike Sydney, Melbourne does not display the same seasonal characteristics, with

much smaller spikes during the summer holiday months of December and January.

The geographic concentration of listings is of concern with the potential for Airbnb to impact housing opportunities in some areas of Melbourne. There is a concentration of listings in the central area of Melbourne and to the south along the Port Phillip Bay side of the Mornington Peninsula, an established holiday accommodation location. Commercial listings take on a tighter focus, with Central Melbourne, Docklands, Southbank, Fitzroy and St Kilda showing the highest concentrations of Airbnb listings, accounting for between 8.6 per cent and 15.3 per cent of rental housing stock. Share listings are also concentrated in central areas and the immediately surrounding SA2s.

The number of new bonds lodged by quarter for the same SA2s (with the exception of Melbourne SA2) shows a general trend of increasing bond lodgements. This suggests there has not been an observable reduction in rental availability as a result of Airbnb. Melbourne SA2 shows a general downward trend in bonds lodged, despite a large growth in residential flat construction. It is possible Airbnb listings have offset any growth in rental dwelling availability, but this cannot be discerned from the available data.

### International perspective

Research in the US shows that STL does push up rents in major cities, but only slightly. In Boston there was a predicted increase in rents of just over 3 per cent in areas with high rates of Airbnb.

Other research also shows that in some cities, hosts with multiple listings account for a disproportionate number of listings. In San Francisco in 2015, 4.8 per cent of hosts had three or more listings, but together run up to 18 per cent of the city's listings, while in Boston, 18 per cent of hosts were responsible for 46 per cent of listings. In New York City, up to 30 per cent of Airbnb listings came from commercial hosts and were thus highly profitable businesses. Nearly 90 per cent of

Airbnb's revenues in Los Angeles are generated by hosts renting out whole units, or two or more units. It is calculated that the 7,316 units taken off the rental market by Airbnb would equal seven years' of affordable housing construction in Los Angeles.

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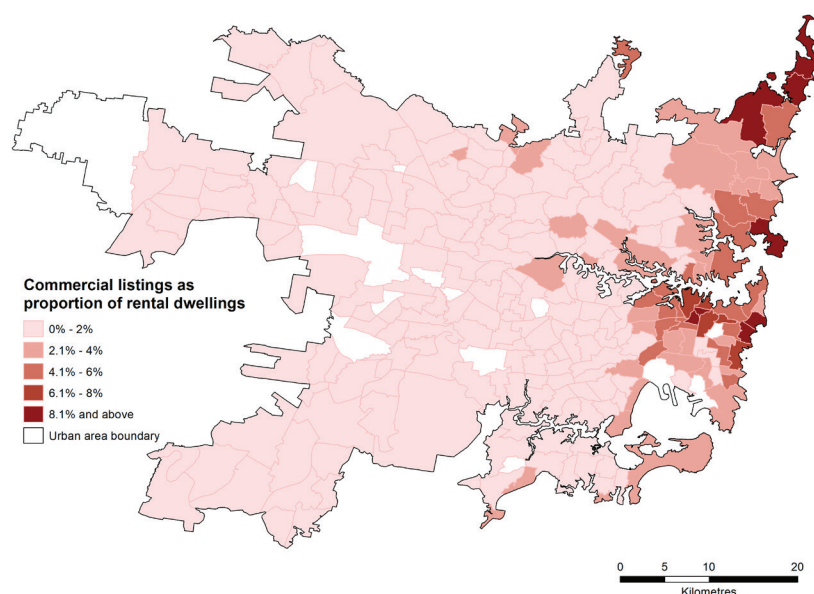
### Home owners and STL

STL is offering existing home owners more flexibility in how they monetise their housing wealth – to mitigate housing costs and insulate them from unexpected repairs or a downturn in the housing market. The success of Airbnb illustrates that there is excess capacity within existing housing stock, and that many people are willing to forego some privacy in return for compensation.

For prospective home owners, STL earnings may be capitalised into higher purchase prices, which risks making entry into home ownership even more challenging by pushing up prices.

There is some evidence that the rise of STL is reshaping the market for investment properties in Australia. For example, real estate agents have been cited claiming investors will pay a 2–3 per cent premium for properties 'with a rental record that shows a higher-yielding Airbnb income stream'. Other reports claim it is possible to achieve significantly higher yields for STL properties over LTR, although such claims were challenged in a study by the Tenants Union of NSW, which showed that 'across Sydney, the number of nights listed on Airbnb required to cover the median rent for the same size property in the same postcode is 194 nights each year'—a difficult booking rate to achieve in many areas.

**Figure 1: Commercial listings as proportion of rental dwellings (ABS 2016) in Sydney**



### Tenants and STL

The growing popularity of STL offers few, if any, potential benefits for tenants. Indeed, the unaffordability of rental markets in Sydney and Melbourne, particularly for lower income renters, means even a small reduction in available rental property is concerning.

For current tenants, the growing popularity of STL could mean an increased risk of having their lease terminated if the owner decides it is more profitable or convenient to list the property on Airbnb. Anecdotal evidence of this practice has been reported for some years, including in Sydney and in rent-controlled apartments in the US. However, it is also clear that some tenants have benefited from STL, using sites like Airbnb to sublet part or all of their rental property. The legality of such subletting has been unclear.

For prospective tenants seeking longer-term sharing arrangements, the likely impact is also mixed. While some private room accommodation now advertised on STL platforms may previously have been made available to long-term tenants (meaning a decrease in available options) broader mainstream acceptance of STL could ease some pressure on the market for shared rental spaces by prompting owners to make space available in their homes. Once hosts have taken the

leap into sharing by hosting on sites like Airbnb, some may subsequently convert to longer-term share arrangements, particularly if STL profits drop. However, the prospect of such a shift is entirely speculative.

### Airbnb hosts survey

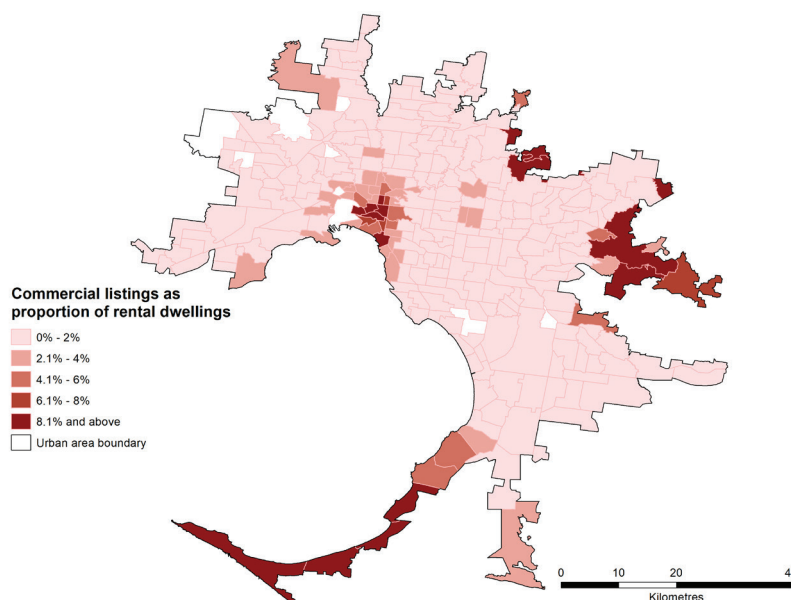
Survey participants were spread across all age ranges, with the largest group in the 25–34 age range. The household income of survey participants reflects existing findings that sharing economy participants tend not to be in the lowest income brackets. The majority of

Sydney-based survey respondents reported an income above the Greater Sydney median household income (\$91,000), while the majority of Melbourne-based respondents sat within the same household income bracket as the Greater Melbourne median household income (\$80,184).

For 58 per cent of respondents, the property they have listed (or considered listing) on Airbnb is the property in which they live, noticeably lower than the 81 per cent of hosts worldwide that Airbnb claims share their primary residence. While this discrepancy might reflect some self-selection bias by survey respondents, it is also likely that this finding points to a greater rate of non-home-sharing Airbnb use in big, wealthy cities like Sydney and Melbourne compared to other parts of Australia and the world. This reinforces the finding that the impact of Airbnb is not uniform, but varies significantly depending on the location, tourism market and housing market.

For the largest proportion of Australian hosts (44.4%), Airbnb earnings provide additional income from housing assets in a way that is perceived to minimise risk, rather than as a necessity for covering existing housing costs. However, a significant number of respondents (170 of 490 respondents or 34.6 %) did indicate that Airbnb income would be used to help maintain

**Figure 2: Commercial listings as proportion of rental dwellings (ABS 2016) in Melbourne**



their existing housing position (71% of the survey respondents who owned their property did so with a mortgage).

Financial motivations were bolstered by the fact that hosting brings additional intrinsic benefits, including the opportunity to connect with diverse people, and a sense of value associated with being a good host.

A number of hosts felt that hosting on Airbnb caused less wear and tear and allowed for better maintenance of their property than with a long-term tenant would—a perception that contradicts that of many opponents to STL in strata buildings.

The downside to using Airbnb is that some hosts found it to be more work than they had expected.

## What this research means for policy makers

A review of 11 cities indicates that there are three broad approaches to regulating STL internationally.

- a permissive approach—where STL is mostly allowed without prior permission or notification.
- a notificatory approach—where STL is mostly allowed, provided the host first notifies an authority (i.e. there is no specific decision by the authority).

— a restrictive approach—where STL is mostly banned, or allowed only where an authority gives specific permission.

Melbourne and Sydney have each taken a permissive approach to STL but, unlike other 'permissive' cities, there is significant uncertainty as to where the limits of this use of premises lie.

The report recommends that Melbourne and Sydney take a notificatory approach. Giving hosts an identification number allows local and state governments to check compliance with limits on days let and restrictions on listing multiple properties.

Regulation of the STL market to limit the number of nights a host can list their property is likely to drive some financially motivated hosts to return their property to the LTR market. The STL hosts most likely to continue will be those who value flexibility in how they use their spare housing capacity as much as they value the income.

Hosting will remain lucrative in certain contexts (e.g. high-end properties, listings in areas with little alternative commercial accommodation), but become less so in other contexts (e.g. mid-range inner-city apartments in

Melbourne; out-of-season listings in Bondi). The seasonality of Airbnb demand is particularly striking, and is likely to drive some flattening out of the Airbnb market over time, but also prompt the emergence of more mixed short-term and long-term letting properties (e.g. properties used as STL over summer, then returned to LTR for 6–9 months over winter). This points to greater uncertainty around the availability of housing for LTR.

## Methodology

This research involved a review of relevant articles from press, academic and government sources; mapping of **AirDNA** datasets and rental bond data for Sydney and Melbourne; interviews and online survey with hosts; and analysis of regulatory policy steps in Sydney and Melbourne, plus nine key overseas jurisdictions: Amsterdam (Netherlands), Barcelona (Catalonia, Spain), Berlin (Germany), Hong Kong (Hong Kong SAR, China), London (United Kingdom), New York City (USA), Paris (France), Phoenix (USA) and San Francisco (USA).

## Further information

### TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

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