

Report No. 13.13 Economic Impact Assessment of Planning Proposal for Short-Term Rental Accommodation

Directorate: Sustainable Environment and Economy

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File No: I2022/98

Summary:

10 This report provides a summary of the findings of a recent economic impact assessment (EIA) carried out by Urbis on Byron Shire Council's Planning Proposal for short-term rental accommodation (STRA). It also explains the implications of the EIA and the result of a peer review that has been commissioned which calls into question the validity of the report's final recommendation.

15 The EIA was requested by the then NSW Department of Planning, Industry and Environment (DPIE) to help explain the likely economic impacts of Council's Planning Proposal, which would see non-hosted STRA 'capped' to 90-days per year in most of the Byron LGA, except for certain precincts in Byron Bay, Suffolk Park and Brunswick Heads where it would be permitted 365-days per year. The idea is to preserve housing in most of
20 the Shire's residential and rural areas, while also acknowledging that some places with high tourism appeal located close to beaches and services might be suitable for unrestricted holiday letting.

The objective of the EIA was to review Council's Planning Proposal and compare it to five other policy options, ranging from a 180-day per year cap across the entire LGA through to
25 an 'unregulated' model with no restriction on holiday letting, and three other variations on the precinct model that would see non-hosted STRA limited in some areas to either 90 days or 180 days per year.

30 The EIA was completed and delivered in November 2021. The report takes existing demographic, employment, tourism, interview, survey data and models the predicted economic and social impacts of each of the six policy options. The analysis considers the likely impacts of different day caps on STRA supply, prices, visitation levels, the property market, employment, local consumption, trading and quality of life.

35 To identify a preferred policy, a cumulative distributed net-benefit analysis is used to measure the likely net benefits or disbenefits for seven key stakeholder groups. The aim is to identify the policy with the greatest overall balance of costs and benefits for all stakeholders, acknowledging that some impacts will be beneficial for certain groups and detrimental to others. For example, increased property values would be beneficial for property owners, but detrimental to prospective purchasers and renters.

The findings of the EIA provide several useful insights. For example, analysis of the demographic and housing data revealed that the Byron LGA is experiencing housing market failure, with poor affordability, very low rental vacancy rates and high concentrations of non-hosted STRA approaching 35% of total dwelling stock. These findings align with previous Council investigations used to underpin the original Planning Proposal.

Another interesting finding was the relatively high proportion of underutilised STRA properties which are 'available' but not occupied for much of the year. This demonstrates an oversupply of accommodation in the STRA sector, but also reflects the choice of some owners who buy and hold properties primarily for enjoyment and may not be motivated by income from short-term or long-term rentals.

While the impacts of each policy vary, it is apparent that a lower day cap is going to increase the supply of long-term rentals, which in turn will decrease the supply of non-hosted STRA and the availability of tourist accommodation generally. Unsurprisingly, this effect would be felt more strongly under a 90-day cap compared to a 180-day cap. However, due to latent capacity in the STRA market from underutilised properties, even a 90-day cap is unlikely to have a significant impact on visitation levels or retail driven spending and employment. The EIA predicted that forecast demand for visitor accommodation could likely be met under a 90-day model if occupancy rates increased within the remain stock of non-hosted STRA. On the other hand, the operational sector of the STRA economy, such as cleaners and gardeners, would be more significantly affected by a lower day cap, with job losses expected in this sector due to less spending on property maintenance.

The EIA ultimately concluded that a 180-day per year cap across the entire Byron LGA was the preferred policy option from an economic perspective as it will provide the most substantial benefits across the relevant stakeholder groups while minimising detrimental impacts on the visitor market.

However, after an initial review of the EIA by Council staff, it became apparent there were several potential problems with the methodology, impact assessment and net-benefit analysis used to produce the reports final recommendation. For example, the report has limited social impact assessment and there appear to be anomalies in the ratings applied to certain impacts and stakeholder groups.

To address these concerns, and to gain a second opinion, Council commissioned Dr. Peter Phibbs to undertake a peer review of the EIA. Dr. Phibbs' review concluded that while the EIA offers some useful material, the rating system used to produce the reports recommendation is fundamentally flawed and does not allow a fair or balanced comparison of each policy. He noted that although economic impact analysis can be a useful aid in decision making, it is not intended to be used as an evaluative tool by itself. He also commented that the method used to compare each option is unreliable because no attempt is made to weigh the importance of the impacts on different stakeholder groups. This means that 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.

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In addition to the findings of the EIA and the peer review, there is another issue that warrants further discussion.

On June 24, 2021, DPIE issued a Gateway determination which requires Council to update the Planning Proposal to reflect the recommendations of the EIA. What this means, in practice, is that the final form of the Planning Proposal and the ultimate policy response, will be decided on fairly narrow economic grounds by an external consultant. This is an unfortunate and detrimental outcome considering the broad range of social, economic and environmental considerations that need to be taken into account on this issue.

As a result of the peer review and other issues raised in this report, it is recommended that the Planning Proposal NOT BE updated to reflect the recommendations of the EIA at this stage. It is questionable whether the SEPP will provide the best balance of economic and social benefits for the Byron Shire community, particularly in the context of the current housing crisis.

Instead, it is recommended that the existing Planning Proposal together with the peer review of the EIA, be forwarded to DPIE for further consideration. This option is considered to offer the greatest social benefit due to increased housing opportunities while also having relatively mild impacts on the tourism sector. The Planning Proposal will need to be amended to satisfy several conditions in the Gateway determination before being sent to DPIE.

It should also be noted that if Council elects instead to adopt the EIA recommendation, this will require the Planning Proposal to be withdrawn, allowing the current planning rules that apply under the SEPP (Housing) 2021 to continue. Correspondence with DPIE late last year confirmed that Ministerial Direction 3.7 (Reduction in non-hosted STRA period) would remain in force for the foreseeable future. DPIE have also indicated that the STRA provisions in the Housing SEPP could potentially be reviewed in 2024. Thus, if the Planning Proposal is withdrawn, there may be an option to revisit a possible 90-day cap at some point in the future.

NOTE TO COUNCILLORS:

In accordance with the provisions of S375A of the Local Government Act 1993, a Division is to be called whenever a motion for a planning decision is put to the meeting, for the purpose of recording voting on planning matters. Pursuant to clause 2(a) under the heading Matters to be Included in Minutes of Council Meetings of Council's adopted Code of Meeting Practice (as amended) a Division will be deemed to have been called by the mover and seconder of all motions relating to this report.

RECOMMENDATION:

That Council:

1. **Notes the findings and recommendations of the Economic Impact Assessment and that of the Peer Review of the Economic Impact Assessment by Dr Peter Phibbs in Attachments 1 and 2.**

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2. **Notes the Planning Proposal Timeline including delays to it due to the changing State Government requirements placed on Council in Attachment 3.**
3. **Supports wholeheartedly the existing 90-day/365-day cap option and instructs staff to amend the current Planning Proposal to meet the requirements of the Gateway Determination in Attachment 4, except for Condition 1(b), point 3, which requires the Planning Proposal to reflect the recommendations of the DPIE endorsed Economic Impact Assessment.**
4. **Authorises staff to submit the Peer Review with the amended Planning Proposal to the Department of Planning and Environment for a revised Gateway Determination to enable public exhibition of the Planning Proposal.**
5. **Requests the Department of Planning and Environment to extend the Gateway Determination date to 31 December 2022 or to when the Planning Proposal is determined and or notified.**

Attachments:

- 1 DPIE Byron STRA EIA (prepared by Urbis), E2022/11735
- 2 Peer Review of EIA prepared by Dr Peter Phibbs for Byron Shire Council, E2022/11741
- 3 Timeline summary of Council's Short Term Rental Accommodation Planning Proposal 26.2020.1.1, E2022/13014
- 4 DPIE Gateway Determination - Byron Shire V2 Short-Term Rental Accommodation Planning Proposal 26.2020.1.1, E2021/89520
- 5 DPIE issued EIA Framework Technical Notes 02/11/2020 for Byron Shire Short Term Rental Accommodation Planning Proposal, E2022/13100

Report

Purpose

5 This report provides a summary of the findings and recommendations of a recent economic impact assessment (EIA) carried out by Urbis, a consulting firm based in Sydney, on Byron Shire Council's Planning Proposal for short-term rental accommodation (STRA). It also explains the implications of the EIA and the result of a peer review that has been commissioned which calls into question the validity of the report's final recommendation.

10 A conditional Gateway determination for the Planning Proposal was issued by DPIE on 24 June 2021 which requires the Planning Proposal to be updated to reflect the recommendations of the EIA. Thus, the EIA is critical in shaping the final form of the Planning Proposal and determining whether it should proceed.

Background

15 Byron Shire has arguably the highest concentration of non-hosted STRA of any LGA in NSW with an estimated 5,250 properties, or 35% of total housing stock actively listed on Airbnb or Stayz throughout 2019. The majority of these were entire home or apartments that were frequently available throughout the year.

20 In recognition of the unique pressures facing the Byron Shire community, the Minister for Planning issued a Direction (see below) on 15 February 2019 which gave Council the opportunity to lodge a Planning Proposal that could limit the use of non-hosted STRA to 90-days per year in the Byron LGA.

3.7 Reduction in non-hosted short term rental accommodation period

Objective

(1) The objectives of this direction are to:

25 (a) mitigate significant impacts of short-term rental accommodation where non-hosted short term rental accommodation period are to be reduced, and

(b) ensure the impacts of short-term rental accommodation and views of the community are considered.

Where this direction applies

30 **(2) This direction applies to Byron Shire Council.**

When this direction applies

(3) This direction applies when the council prepares a planning proposal to identify or reduce the number of days that non-hosted short-term rental accommodation may be carried out in parts of its local government area.

What a planning proposal authority must do if this direction applies

(4) The council must include provisions which give effect to the following principles in a planning proposal to which this direction applies:

- 5 • non-hosted short term rental accommodation periods must not be reduced to be less than 90 days
- the reasons for changing the non-hosted short-term rental accommodation period should be clearly articulated
- 10 • there should be a sound evidence base for the proposed change, including evidence of the availability of short-term rental accommodation in the area (or parts of the area) in the 12 months preceding the proposal, relative to the amount of housing in the area, and trend data on the availability of short-term rental accommodation over the past 5 years.
- 15 • the impact of reducing the non-hosted short-term rental accommodation period should be analysed and explained, including social and economic impacts for the community in general, and impacted property owners specifically.

Consistency

- (5) A planning proposal may be inconsistent with the terms of this direction only if the relevant planning authority can satisfy the Director-General of the Department of Planning (or an officer of the Department nominated by the Director-General) that the provisions of the planning proposal that are inconsistent are of minor significance.

In February 2020, Council adopted and submitted a Planning Proposal to DPIE with a request for a Gateway determination to introduce new planning controls for short-term rental accommodation into the Byron Local Environmental Plan 2014 (LEP 2014). A key provision was the introduction of a 90-day per year cap on non-hosted STRA across the LGA.

13.12 PLANNING - 26.2020.1.1 - Planning Proposal for Short Term Rental Accommodation [Agenda of Ordinary \(Planning\) Meeting - 20 February 2020 \(infocouncil.biz\)](#)

Following an initial assessment, DPIE informed Council in June 2020 that a more rigorous economic analysis was required to evaluate the potential impacts on the tourism industry and long-term rental housing market if property owners would be required to reduce their non-hosted STRA to 90-days per year. Council staff had prepared and submitted already to the DPIE economic and social impacts data which appeared to meet the above Direction to enable the Planning Proposal to proceed to Gateway determination. This considering the need to meet part b of the objectives of the Direction:

...b) ensure the impacts of short-term rental accommodation and **views of the community are considered.**

Consequently, Council requested further clarification soon after from the DPIE as to exactly what they required, noting that a study of this nature could be prohibitively expensive and take months to complete. There appeared to be no formal requirements in

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any of the DPIE documents for STRA that staff were able to source, and there was no baseline data on STRA either.

Over four months later, in December 2020, DPIE sent Council a draft Economic Impact Assessment framework, outlining the scope for an Economic Impact Assessment report that Byron Shire needed to comply with for a Gateway Determination to be issued for the Planning Proposal (Attachment 5).

About the same time, due to the need to update Council on its Planning Proposal V1, Council received Report **13.21 Update - Impacts of and management options for short term rental accommodation (STRA) in Byron Shire** [Agenda of Ordinary \(Planning\) Meeting - Thursday, 19 November 2020 \(infocouncil.biz\)](#)

In actioning Council resolution **20-605** from that meeting, the Planning Proposal was later revised and resubmitted on 5 March 2021, putting forward an alternative precinct model which aims to limit non-hosted STRA to 90-days per year across most of the LGA, except in certain precincts where it would be permitted 365 days per year. This approach attempts to preserve housing in most of the Shire's residential and rural areas, while also acknowledging that certain locations with high tourism appeal near beaches and services may be better suited to unrestricted holiday letting.

What followed the Planning Proposal submission to the DPIE was further delay and an impasse with the DPIE on the merits of this Planning Proposal. Of note also was the timing interplay with the above, with the announcement of the State Environmental Planning Policy (SEPP STRA) going live in mid-2021 (later November 2021) as well as the concerns raised by Council, that because of this, the SEPP STRA would apply to Byron Shire ahead of the Planning Proposal process being finalised.

A meeting with the then Minister for Planning ensued and an exception for Byron Shire to the SEPP STRA date was granted until 31 January 2022. This Minister granted this extension in good faith and on the basis that the EIA and Planning Proposal process could be finalised by the DPIE by then. A project timeline for the Planning Proposal is detailed in Attachment 3.

Following several more months of discussions, Council entered into a joint funding agreement with the Planning Delivery Unit (PDU) of DPIE to fund the EIA now required as the project cost was beyond that which Council had envisaged and was otherwise budgeted for at this time. The PDU is a new division of DPIE created with the aim of progressing development applications or Planning Proposals that may be 'stuck' in the system. Normally the PDU mediates disputes that involve local councils and other state agencies or landowners not the DPIE itself. This is one of several projects that Byron Shire has found itself in these particular and peculiar circumstances over the past 2 years.

As such, and as the bulk of funding was provided by PDU for the EIA, they also assumed responsibility for engaging a consultant, managing the project, and ensuring timely delivery of the final report. Urbis, a consulting firm based in Sydney, was selected by PDU to carry out the study, with work commencing in mid-2021.

On 24 June 2021, DPIE issued a conditional Gateway determination for the Planning Proposal which can be found in Attachment 4 of this report. The Gateway requires Council

to submit a revised Planning Proposal that will recommend an amendment to *State Environmental Planning Policy (Affordable Rental housing) 2009* (now superseded by SEPP Housing 2021), instead of LEP 2014 as originally proposed. It is understood this option is preferred by DPIE for the sake of consistency however no specific reasons were given for the change.

The final EIA was delivered to PDU in November 2021. In summary, the report concludes that the SEPP, which introduces a 180-day per year cap on non-hosted STRA across the entire Byron LGA, will generate net benefits for the most stakeholder groups and is therefore the preferred policy option from an economic perspective.

- 10 A key requirement of the Gateway determination is that the Planning Proposal must be updated to reflect the recommendations of the EIA. Thus, Council will need to carefully consider the findings of the EIA and decide whether to proceed with the current Planning Proposal.

Economic Impact Assessment – Aims and Objectives

- 15 The objective of the EIA is to review Council's Planning Proposal and compare it to five other policy options, ranging from a 180-day per year cap across the whole LGA through to an 'unregulated' model with no restriction on holiday letting, and three other variations on the precinct model that would see non-hosted STRA limited to either 90 days or 180 days per year in certain areas.
- 20 The report takes existing demographic, employment, tourism, interview and survey data, and models the predicted economic and social impacts of each of the six policy options. The analysis considers the likely impacts of different day caps on STRA supply, STRA prices, visitation levels, the property market, employment, local consumption and trading, and quality of life.
- 25 To identify a preferred policy, the EIA uses a cumulative distributed net-benefit analysis to measure the likely net benefits or disbenefits for seven key stakeholder groups.

These include:

- 30 (1) Visitor Market - Operators,
(2) Visitor Market - Visitors,
(3) Property Market - Renters and Purchasers,
(4) Property Market - Owners,
(5) Local Businesses,
35 (6) Workers, and
(7) Residents.

The Six Policy Options

- 40 Six policy options have been identified that could be potentially implemented in the Byron LGA to address the issues currently being faced, particularly in the housing market. These policy options all relate to the implementation of a 'cap' on the number of days a property can be made available as non-hosted STRA each year.

The six policy options are as follows:

- **Base Case: SEPP** - Default policy under the SEPP (Housing) 2021, which includes a 180-day cap on non-hosted STRA across the entire LGA.
- **Base Case: SEPP Alternative** - A variation to the SEPP, which proposes a 180-day cap on non-hosted STRA, except in a set of Urbis defined precincts where STRA would be permitted 365-days per year.
- **Option 1: Planning Proposal** - Council's Planning Proposal, which includes a 90-day per year cap on non-hosted STRA except in a set of Council defined precincts where STRA would be permitted 365-days per year.
- **Option 1A: PP Alternative 1** - A variation to Council's Current Planning Proposal which assumes a 180-day cap on non-hosted STRA outside of Council-defined STRA Precincts (instead of 90-days).
- **Option 1B: PP Alternative 2** - A second variation to Council's Current Gateway Planning Proposal which assumes a 90-day cap except in a set of Urbis defined precincts where STRA would be permitted 365-days per year.
- **Option 2: No Caps** - No caps on non-hosted STRA across the entire LGA.

Findings of the socio-economic review

The EIA includes a review of the local socio-economic context, which draws on demographic, employment, tourism and housing market data. Importantly, this information underpins the economic modelling which occurs later in section 4 of the report. A summary of the most relevant findings is given below, however, full details can be found in Section 2 on pages 41 to 63 of the EIA.

There is high concentration of STRA activity and insufficient housing supply

Between 2017 and 2019, the number of non-hosted STRA properties increased from 3,860 properties to 5,250 properties, which equates to 35% of total dwelling stock in the Byron LGA. During the same period, long-term residential rentals as a proportion of total rental supply (i.e., both short term and long term) in the Byron LGA have fallen from 61% to 53% of dwellings. This indicates a trend of long-term rentals shifting into the short-term market.

There is a high proportion of underutilised properties

Approximately 62% of non-hosted STRA properties were listed as 'available' for more than 180 days per year, however, most of these properties (61%) were 'occupied' for less than 90 days per year. This implies a relatively high proportion of properties which are underutilised or left vacant for most of the year.

Residential vacancies are low and there is poor housing affordability

Between 2016 and 2019, residential vacancy rates in the Byron Shire and across the broader North Coast have remained below 2.1%. Further, most jobs in the LGA are in Byron Bay town centre (42%), however, by 2019, nearly half (44%) of dwellings in the Byron Bay town centre were being used as non-hosted STRA. Therefore, the ability for workers to live close to their place of work has diminished since 2016.

There is market failure

Ultimately, Urbis conclude there is a market failure where a lack of clear regulation and attractive revenue prospects have led many property owners to convert their residential properties into STRA properties. This has caused further tightening of an already low vacancy residential market, thereby creating further upward rent and price pressure which attracts additional investors and is leading to worsening affordability for renters and prospective purchasers.

Findings of the survey and industry interviews

To help inform the analysis, a series of in-depth interviews were carried out with local real estate agents and property managers, and a survey was distributed for property owners who were actively participating in the STRA sector. The survey was accessible via the Council website (although, it is important to note that Council had no role in preparing the survey questions). The responses from the survey were used to understand how people might change their behaviour under different policy settings. Specifically, what would people do under a 90-day or 180-day cap, and would they consider selling or converting to long-term rental?

The following is summary of the most important insights from the survey and interviews. Full details can be found in Section 3, pages 67 to 74 of the EIA.

Survey insights

Under a 90-day cap scenario, 39% of respondents said they may shift out of STRA

Under the proposition of a 90-day cap, about 61% of owners stated they will continue to rent their properties out as short stay accommodation for the maximum period allowed (i.e., 90-days per year), with 32% stating they would shift into long-term rental and 7% stating they would sell.

Under a 180-day cap scenario, 20% of respondents said they may shift out of STRA

Under the proposition of a universal 180-days cap across the LGA, most properties owners stated they will continue to rent their properties out as short stay accommodation for the maximum period allowed (~80%), with 17% stating they would shift into long-term rental and 3% stating they would sell.

Only a small number of respondents (8%) indicated they would shift out of STRA under a 365-day cap scenario (no cap).

As expected, an 'unregulated' model with no day cap (either across the entire LGA or in specific precincts) is likely to result in minimal changes to the current situation. Approximately 92% of survey respondents said they would continue to use their properties for STRA if no day caps were imposed. Interestingly, 8% of respondents claimed they would shift into long-term rental under this policy. The EIA did not attempt to explain this finding, but it may be related to conditions in the tourism sector at the time of the survey due to the Covid-19 pandemic. There could also be a minority of owners who are unable to comply with basic legal or fire safety requirements under the new state-wide planning framework.

Interview insights

Many Owners Buy and Hold Properties for their Enjoyment

According to interviewees, affluent owners often purchase property primarily for their own personal use and enjoyment. Consequently, they choose to rent the property out as short stay accommodation in the times they are not using it. Long-term rental would not be an option for this type of owner as it would remove the benefit and reason for owning the property.

STRA Property is Unlikely to be Suitable for Long Term Rental

Interviewees commented that some dwellings have been built or altered specifically for tourist accommodation purposes. If some of these properties were to be transferred to the long-term rental market, the rents being sought would generally reflect the standard of the property. This would not address the shortage of long-term rentals if new properties were priced above where the market gap is.

STRA Market Supports a High Yielding Visitor Strategy

Family groups, many of whom are affluent residents from Sydney, Melbourne and other cities, are looking for houses to stay in. They have less interest in a hotel or resort in the Byron area which may not suit their spatial needs or be pet friendly. One manager reported an average spend of \$4,190 versus for STRA groups versus \$732 for a visitor in hosted accommodation such as a serviced apartment.

The Council-defined STRA Precinct Boundaries Do Not Make Sense to Industry

Interviewees commented that the type of property is the often driver rather than the location itself, so some visitors choose house over location. Therefore, they go to areas that offer them the experience they want and that could be in a property an owner has developed to a high standard which happens to be in a residential area. Some interviewees also commented that areas outside Byron Bay will potentially be adversely impacted by new policies yet may not have the same issues that are driving a review of policy related to STRA.

Outcome of the Impact Assessment

5 The EIA attempts to model the predicted direct, indirect and social impacts of each of the six policy options. Each policy was given a rating of low, medium or high, depending on the severity of the predicted impact, which is further categorised by its direction, either up or down. Urbis state that the impact assessment is intended to be value neutral. In other words, it is claimed the ratings do not reflect whether a potential impact is beneficial or detrimental, as this would ultimately be a value judgement that depends on the person or group being impacted.

A value lens is applied by Urbis later in the Cumulative Distributed Net-Benefit Analysis, which attempts to identify which stakeholder groups would be the most affected under each policy option, either beneficially or detrimentally.

15 Full details of the impact assessment can be found in Section 4, pages 80 to 157, of the EIA. The most relevant findings covering impacts on STRA supply, the long-term housing market, visitation levels, and employment are summarised below.

Direct Impacts

Impacts on STRA supply and prices

20 **The supply of non-hosted STRA will be reduced under all policy options, however a 90-day cap will have a greater impact**

25 Modelling predicts that all policy options will cause a reduction in the supply of non-hosted STRA, which is not unexpected given that five of the six options involve the use of a day cap to restrict non-hosted STRA activity.

30 Council's Planning Proposal is expected to result in the most significant reduction, with an estimated decrease of approximately 34% relative to 2019 levels. By comparison, the SEPP, plus Options 1A and 1B are all estimated to moderately reduce non-hosted STRA supply by approximately 19%, 18% and 18%, respectively.

35 The remaining two policy options, the SEPP Alternative and Option 2 No Caps, are expected to result in relatively low impacts on supply. Specifically, the SEPP Alternative is estimated to reduce non-hosted STRA supply by approximately 12% while Option 2 No Caps results in an 8% decrease.

Table 1. Predicted changes to non-hosted STRA supply

Policy Option	% Change
Base Case – SEPP Option	-19%
Base Case – SEPP Alternative	-12%
Option 1 – Planning Proposal	-34%
Option 1A – PP Alternative	-18%

Option 1B – Urbis precincts	-18%
Option 2 – No Caps	-8%

Lower availability of non-hosted STRA could lead to higher prices

- 5 All policies are anticipated to increase STRA prices although Council's Planning Proposal and Option 1B area anticipated to have the greatest impact with a 26% price increase. In comparison, the SEPP, SEPP Alternative and Option 1A, are anticipated to result in a 14% increase. Option 2 No Caps was the only policy not predicted to increase prices.
- 10 It should be noted that the predicted changes to the STRA prices were strongly influenced by insights from the survey of STRA providers and reflect only how these providers stated they would attempt to directly influence prices. The predictions also reflect changes in expected occupancy rates. That is, a lower STRA supply is expected to result in higher occupancy rates which could put upward pressure on prices.
- 15 **Table 2.** Predicted changes to non-hosted STRA prices

Policy Option	2019 Average Daily Rate	Predicted Average Daily Rate	% Change
Base Case – SEPP Option	\$321	\$364	14%
Base Case – SEPP Alternative	\$321	\$364	14%
Option 1 – Planning Proposal	\$321	\$403	26%
Option 1A – PP Alternative	\$321	\$364	14%
Option 1B – Urbis precincts	\$321	\$403	26%
Option 2 – No Caps	\$321	\$325	1%

Impacts on housing supply and long-term rentals

- 20 **A lower day cap will increase supply of long-term rental and owner occupier properties**

- 25 Council's Planning Proposal is estimated to have the greatest effect on long-term housing, increasing permanent rentals by 1535 dwellings which equates to a 24% increase. The SEPP option is predicted to bring 885 new dwellings (14% increase), while the SEPP Alternative, and Options 1A and 1B are expected to return 575 (9%), 830 (13%) and 840 (13%) long-term rentals respectively. Option 2 No Caps is predicted to result in 420 properties (6.5%) shifting into the long-term rental market.

- 30 **Table 3:** Predicted change to long-term rental and owner occupier market.

Policy Option	Long Term Rental	%	Owner Occupy	%
Base Case – SEPP Option	885	14%	100	1%
Base Case – SEPP Alternative	575	9%	45	0.5%

Option 1 – Planning Proposal	1535	24%	275	3%
Option 1A – PP Alternative	830	13%	100	1%
Option 1B – Urbis precincts	840	13%	120	1.5%
Option 2 – No Caps	420	6.5%	0	0%

Residential Property Value Impacts

Residential property values may be affected relative to other areas with less restrictive planning controls

Predicted changes in property valuation have been assessed against the perceived rights of homeowners in Byron LGA compared to the rest of NSW. For example, a 90-day cap would be perceived as more restrictive than a 180-day cap which applies to Greater Sydney, and this would translate into *relatively* lower property price growth.

As such, Option 2 No Caps was considered likely to result in a high increase in property values, while the Option 1 Planning Proposal would have a relatively high decrease, presumably due to stricter planning rules under Option 1 compared to the rest of NSW. Both the SEPP and Option 1A were estimated to produce a low decrease in property values while the SEPP Alternative and Option 1B produced a moderate increase and decrease in property values respectively.

Table 4: Predicted change in residential property values

Policy Option	Predicted price change
Base Case – SEPP Option	Low Decrease
Base Case – SEPP Alternative	Moderate Increase
Option 1 – Planning Proposal	High Decrease
Option 1A – PP Alternative	Low Increase
Option 1B – Urbis precincts	Moderate Decrease
Option 2 – No Caps	High Increase

Indirect Impacts

Visitor Market Impacts

Both 180-day and 90-day per year caps will cause a reduction in room availability, although the effect will be stronger under a 90-day cap.

As expected, policies which had the most beneficial impact on long-term housing also had a greater impact on the availability of rooms due to properties being shifted out of the tourism market and placed back into long term housing. Conversely, policies which have little effect on long-term housing also had little effect on room availability.

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This is reflected in the impact assessment which shows that number of available room nights is forecast to increase by ~1.2% p.a. under Option 2 No Caps and will slightly increase under the SEPP Alternative by ~0.3% p.a. between 2021 and 2027.

- 5 The remaining four policy options are all forecast to result in lower available room nights in by virtue of stricter caps and/or application of the caps to a broader geographical area. Option 1 Planning Proposal will have the most significant impact with available rooms decreasing by 12.8% p.a. by 2027. The SEPP, Option 1A and Option 1B are all estimated to moderately reduce room night availability by approximately 2.6%, 1.8% and 2.7% p.a.,
10 respectively.

Table 5: Predicted Available Room Nights (2019 – 2027)

Policy Option	2019	2024	2027	Change p.a. (%)
Base Case – SEPP Option	1,119,560	795,541	819,913	-2.6%
Base Case – SEPP Alternative	1,119,560	946,748	974,106	0.3%
Option 1 – Planning Proposal	1,119,560	408,934	422,591	-12.8%
Option 1A – PP Alternative	1,119,560	834,700	859,164	-1.8%
Option 1B – Urbis precincts	1,119,560	785,763	811,375	-2.7%
Option 2 – No Caps	1,119,560	1,004,116	1,031,724	1.2%

- 15 **Occupied room nights will be similar under all the policy options, however, occupancy rates will increase more significantly under a 90-day cap**

20 Total occupied room nights for non-hosted STRA (which refers to the actual number of nights where a property is occupied by visitors), is forecast to grow strongly by 4.7% p.a. under the SEPP, SEPP Alternative, Option 1A and Option 2 No Caps. This is a result of there still being sufficient forecast available room nights under these four policy options to meet forecast demand.

25 Under Option 1 Planning Proposal or Option 1B, occupied room nights are anticipated to increase moderately by ~3.9% between 2021 and 2027.

30 Forecast occupancy rates vary by policy option primarily due to the differing number of available rooms. Across five of the options, the forecast occupancy rates generally remain within a 10% range. However, occupancy rates under Option 1 are forecast to reach 92% in 2026, around double the rates under the other policy options. This is purely a result of the significant reduction in the number of available room nights under this option.

Table 6: Predicted Occupied Room Nights (2019 – 2027)

Policy Option	2019	2024	2027	Change p.a. (%)
Base Case – SEPP Option	383,922	387,743	404,399	4.7%
Base Case – SEPP Alternative	383,922	387,743	404,399	4.7%
Option 1 – Planning Proposal	383,922	367,353	383,787	3.8%

Option 1A – PP Alternative	383,922	382,743	404,399	3.9%
Option 1B – Urbis precincts	383,922	366,862	384,665	4.7%
Option 2 – No Caps	383,922	382,743	404,399	4.7%

Local Consumption and Trading Impacts

The STRA operational sector will be the most significantly affected part of the economy

Based on insights from the survey, STRA providers in the Byron LGA are estimated to spend an average of ~\$20,500 per annum per property on the maintenance, cleaning and other services. In comparison, data sourced from the ABS Household Expenditure Survey indicates that residential households spend only ~\$2,095 on property cleaning and maintenance (not accounting for potential property management fees associated with long term rentals).

Based on this finding, the EIA predicts that the operational sector of the local economy is predicted to be the most significantly affected, with Option 1 Planning Proposal anticipated to result in ~\$33 million in foregone spending on property maintenance. This compares to an \$18 million reduction under the SEPP and \$7 million less spending under Option 2 No Caps.

Table 7: Estimated reduction in operational spending

Policy option	STRA dwellings converted to residential	foregone spending per dwelling	Annual foregone spending (million)
Base Case – SEPP Option	~420	\$18,400	\$18.10m
Base Case – SEPP Alternative	~960	\$18,400	\$11.40m
Option 1 – Planning Proposal	~930	\$18,400	\$33.30m
Option 1A – PP Alternative	~1810	\$18,400	\$17.10m
Option 1B – Urbis precincts	~620	\$18,400	\$17.70m
Option 2 – No Caps	~985	\$18,400	\$7.70m

Retail spending will increase by a similar amount under all policy options

STRA retail spending is forecast to increase by a similar amount under all options, growing between 5.9% and 6.2% between 2019 and 2027. The EIA claims this is because retail spending is driven primarily by visitation levels, which are proposed to be similar amongst all options over the next 5 years. The growth rate would be slightly less under a 90-day cap compared to other policies but is still predicted to increase over the next 5 years.

Impacts on Local Employment

Employment in the STRA operational sector most affected

- 5 Operational jobs such as cleaners, gardeners and property maintenance are forecast to be the most affected sector of the economy, with a predicted loss of employment in this sector under all policy options. This is related to an increase in long-term housing and reduced spending on property maintenance. The Planning Proposal is predicted to have the greatest effect, resulting in a loss of 265 operational jobs, compare with a loss of 145
- 10 operational jobs under the SEPP and 62 jobs under Option 2 No Caps.

Table 8: Estimated reduction in employment for cleaning, maintenance etc.

Policy option	Direct jobs	Indirect jobs	Total Jobs
Base Case – SEPP Option	-112	-33	-145
Base Case – SEPP Alternative	-70	-20	-90
Option 1 – Planning Proposal	-205	-60	-265
Option 1A – PP Alternative	-105	-31	-136
Option 1B – Urbis precincts	-109	-32	-141
Option 2 – No Caps	-48	-14	-62

- 15 **Retail employment and other jobs are likely to increase under all policy options**

By contrast, local employment driven by retail and other sectors is expected to increase between 254 and 272 jobs and will be similarly affected under all policy options. This reflects that retail and other jobs are driven more by visitation numbers generally which are

20 predicted to increase in the future under all policy options.

Table 9: Estimated change in employment related to retail spending

Policy option	2019	2024	2027	Total 2021-27
Base Case – SEPP Option	1194	811	894	+ 272
Base Case – SEPP Alternative	1194	811	894	+ 272
Option 1 – Planning Proposal	1194	797	876	+ 255
Option 1A – PP Alternative	1194	811	894	+ 272
Option 1B – Urbis precincts	1194	798	875	+ 254
Option 2 – No Caps	1194	811	894	+ 272

- 25 **Net employment will increase under all policies except for the Planning Proposal, due to a somewhat greater impact on operational jobs**

Overall, net employment is predicted to increase under all policy options except the Planning Proposal due to a slightly greater loss of operational jobs for this option.

30 However, overall, lost operational jobs will largely be offset by other jobs driven by

increases in retail spending, due to a predicted increase in tourism and visitor spending by 2027.

Table 10: Estimated change in employment for retail

Policy options	Operational Jobs	Retail Jobs	Total change by 2027
Base Case – SEPP Option	-145	272	127
Base Case – SEPP Alternative	-90	272	182
Option 1 – Planning Proposal	-265	255	-10
Option 1A – PP Alternative	-136	272	136
Option 1B – Urbis precincts	-141	254	113
Option 2 – No Caps	-62	272	210

Impacts on the Residential Property Market

Lowering the day cap could reduce rents because of increased supply in the long-term rental market

Given there is a tight rental vacancy rate in Byron Shire (~2%), any increase in the long-term rental market dwelling supply is likely to materially reduce rents. The degree of impact will, of course, depend on the increase of supply in the long-term rental market.

Therefore, Option 1 Planning Proposal is expected to have the greatest impact on long term rental market rents. This estimated decrease is underpinned by the expected ~24% increase in the supply of long-term rental dwellings relative to the number of long-term rental dwellings in 2021. Additionally, the likely strong decrease in rents under Option 1 also has significant potential to improve rental affordability in the Byron LGA and to enable greater housing choice for residents.

In comparison, the SEPP Option 1A and Option 1B are estimated to result in a moderate decrease in long term rental market rents by virtue of their estimated ~13-14% increase in long-term rentals. The remaining two policy options, the SEPP Alternative and Option 2 No Caps, are estimated to result in relative low decreases in long term rental market rents as a result of their estimated ~6.5-9% increase in the supply of long-term rental dwellings.

A lower day cap could potentially reduce residential property values relative to other areas

Conversely, a reduction in rental yields could also put downward pressure on property values. The EIA concluded that Option 1 Planning Proposal is estimated to result in residential property values experiencing a relatively large decrease by virtue of the expected strong negative rent impacts. In comparison, the SEPP, Option 1A, and Option 1B are all estimated to result in moderate decreases in residential property values driven by the estimated moderate negative impacts on long term rental market rents. The remaining two policy options, the SEPP Alternative and Option 2 No Caps, are estimated

to only result in relative low decreases in residential property values because of their estimated low negative impacts on long term rental market rents.

Property investment and development activity are not likely to be significantly affected due to the high land prices in the Byron LGA

By virtue of relatively high property values in the Byron LGA, the EIA predicted that development activity is not likely to be significantly impacted by any of the proposed policy options except Option 1 Planning Proposal. However, because property values are already high in the Byron LGA, development activity is likely to experience no more than a moderate decrease under this option.

Housing stress is likely to be reduced if more long-term rentals become available, however, this depends on employment (and therefore incomes) remaining relatively unaffected

Given housing stress is based on the ratio of income to housing expenses (i.e., rent or mortgage payments), and changes to employment (and therefore incomes), rents and residential property values will all result in a change to the level of housing stress being experienced. The degree of impact will therefore depend on the degree by which the rents, property values and employment change.

The SEPP, Option 1A, and Option 1B are expected to result in moderate decreases in long term rental market rents and residential property values, combined with moderate increases in employment (and therefore incomes). Therefore, housing stress is estimated to potentially decrease under these three policy options. On the other hand, the SEPP Alternative and Option 2 No Caps are expected to decrease housing stress only slightly. This is a result of the low estimated decreases in long term rental market rents and residential property values.

The Planning Proposal option is anticipated to result in a moderate decrease in housing stress despite high decreases in long term rents and residential property values. The EIA concluded that lower rents and property prices under this option would be partially offset by a reduction in employment and economic activity, resulting in a smaller reduction in housing stress overall.

Social Impact Assessment

To complement the largely measurable direct and indirect impacts, the report also includes a brief social impact assessment of the 'non-measurable' impacts potential on the Byron Shire economy. Potential social impacts were canvassed in terms of impacts on: (1) the local tourism sector (2) demand for local services and businesses, (3) local employment, (4), housing accessibility and affordability, (5) quality of life for local residents, and (6) community and permanency.

In summary, the SEPP was assessed as having the greatest potential social benefits out of the six policy options and Option 1, Council's Planning Proposal, was assessed as having the second highest social benefit with moderate benefits across all categories.

Despite Option 1 Planning Proposal being estimated to deliver more permanent housing, the report ranked this option lower than the SEPP in terms of social benefits due to a perceived moderate increase in amenity and local identity and culture. This is mainly because the EIA has attributed amenity, local culture and identity as partially being a product of visitation, retail spending and the presence of shops, cafes and restaurants which are expected to experience strong growth under the SEPP but only moderate growth under the Planning Proposal.

The remaining three policy options were expected to have lower social benefits (to varying degrees) compared to the SEPP or the Planning Proposal, with Option 2 No Caps having the lowest social benefit as it would contribute to ongoing problems relating to housing opportunities and neighbourhood conflict arising from noise disturbances.

Findings of the Cumulative Distributed Net-Benefit Analysis

To identify a preferred policy, the EIA uses a Cumulative Distributed Net-Benefit Analysis to measure the likely net benefits or disbenefits for seven key stakeholder groups. The idea is to identify the policy with the greatest overall balance of costs and benefits for all stakeholders, acknowledging that some impacts will be beneficial for certain groups and detrimental to others.

Included stakeholder groups:

- Visitor Market (i.e. the Byron LGA Tourism Sector) - Operators
- Visitor Market (i.e. the Byron LGA Tourism Sector) – Visitors
- Residential Property Market – Renters and Purchasers (i.e., individuals/groups who will suffer disbenefits if rents or property values increase)
- Residential Property Market – Owners (i.e. individuals/groups who will enjoy benefits if rents or property values increase)
- Local Businesses and Services
- Local Workers (i.e. local employment)
- Local Residents / Community (i.e. quality of life of and permanency)

A detailed breakdown of the cumulative distributed net-benefit analysis can be found in Section 4.3, page 85 of the EIA.

To summarise, the SEPP (180 day per year cap across the entire LGA) was given the highest overall score as it is predicted to generate net benefits for all stakeholder groups except for Visitor Market – Visitors. Under this option, strong benefits are expected to accrue to the Renters and Purchasers and Local Residents / Community without any net disbenefits accruing to Residential Property Owners, Local Services, Businesses and Local Workers.

Table 11: Ratings from the Cumulative Distributed Net-Benefit Analysis.

Policy Option	Overall Rating
Base Case – SEPP Option	High Net benefit (+13.5)
Base Case – SEPP Alternative	High Net benefit (+12)
Option 1 – Planning Proposal	Moderate Net benefit (+7)
Option 1A – PP Alternative	High Net Benefit (+12)
Option 1B – Urbis precincts	Moderate Net Benefit (+8.33)
Option 2 – No Caps	Moderate Net Benefit (+7.5)

Recommendation

5 The EIA ultimately concluded that a 180-day per year cap across the entire Byron LGA was the preferred policy option from an economic perspective. The report estimates this option will provide the most substantial benefits across the seven relevant stakeholder groups while minimising detrimental impacts on the visitor market.

10 Peer review and discussion of issues

15 After an initial review of the EIA by Council staff, it became apparent there were several potential problems with the methodology, impact assessment and net-benefit analysis used to produce the reports final recommendation. For example, the report has limited social impact assessment and there appeared to be anomalies in the ratings applied to certain impacts and stakeholder groups.

To address these concerns, and to gain a second opinion, Council commissioned [Dr. Peter Phibbs](#) to provide a peer review of the EIA (Attachment 2).

20 Dr. Phibbs was previously a Professor in the Faculty of Architecture, Design and Planning at the University of Sydney. He has considerable experience in economic impact assessment and has published numerous academic papers on the issue. Peter's recent research has focused on housing issues, including detailed examinations of the short-term rental market and appropriate planning responses. Along with his colleague [Professor Nicole Gurrin \(sydney.edu.au\)](#), Peter authored one of the early papers in the international planning literature on planning responses to short-term rental housing.

25 [Challenging the Discourse around the Impacts of Airbnb through Suburbs Not Cities: Lessons from Australia and COVID-19 - Critical Housing Analysis \(housing-critical.com\)](#)

[Introduction to the Special Issue: Short-Term Rentals and the Housing Market - Critical Housing Analysis \(housing-critical.com\)](#)

30 Perhaps the most significant issue raised in the peer review 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. In Dr. Phibbs' view, this is a fundamental error. He noted that although economic impact analysis can be a useful aid in decision making, it is not intended to be used as an evaluative tool by itself. This is because many actions that

might generate significant economic benefits could also have significant social and environmental costs.

He further noted that the scoring system used to produce the reports final recommendations does not attempt to weigh the relative importance of the various stakeholder groups. This means benefits to the community from less STRA is outweighed by the negative impacts of visitors having to pay more for their accommodation. And while the authors might claim they didn't know the weights to apply, by combining the scores in the way they have in the report they explicitly use an equal weighting for the impacts on each stakeholder. On this issue, Dr Phibbs commented that "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, he was strongly of the view that the recommendations that the consultant provides are misleading.

In addition to these main points, the peer review also highlighted several other potential problems with the report. For example, the EIA does not include any assessment of the impacts on the State economy. The Urbis report suggests that restricting the supply of tourist accommodation will lead to people having holidays in surrounding locations. However, in economic terms, this means there will be no net economic impact – the economic activity will be transferred to another area. Transferring tourists from Byron Shire to other locations in NSW with less stressed housing markets would have net benefits for NSW.

Several other issues were also identified, including an unusual and limited social impact assessment, questionable figures on the long-term rental market and a general downplaying of the benefits of long-term renting versus STRAs. Dr. Phibbs notes that "in places, the study looks like it might have been funded by STRA owners in Byron Bay rather than taking a broader perspective".

In addition to the findings of the EIA and the peer review, there is another issue that warrants further discussion.

On June 24, 2021, DPIE issued a Gateway determination which requires Council to update the Planning Proposal to reflect the recommendations of the EIA. What this means in practice is that the final form of the Planning Proposal, and the ultimate policy response, will be decided on fairly narrow economic grounds by an external consultant. This is an unfortunate outcome considering the broad range of social, economic, and environmental considerations that need to be taken into account on this issue.

Conclusion

As a result of the peer review and other issues raised in this report, it is recommended that the Planning Proposal NOT BE updated to reflect the recommendations of the EIA at this stage. It is highly questionable whether the SEPP will provide the best balance of economic and social benefits for the Byron Shire community, particularly in the context of the current housing crisis.

Instead, it is recommended that the existing Planning Proposal together with the peer review of the EIA be forwarded to DPIE for further consideration and issue of a revised Gateway Determination. This option is considered to offer the greatest social benefit due to increased housing opportunities while also having relatively mild impacts on the tourism sector. The Planning Proposal will need to be amended to satisfy several conditions in the Gateway determination before being sent to DPIE.

It should also be noted that if Council elects instead to adopt the EIA recommendation, this will require the Planning Proposal to be withdrawn, allowing the current planning rules that apply under the SEPP (Housing) 2021 to continue. Correspondence with DPIE late last year confirmed that Ministerial Direction 3.7 (Reduction in non-hosted STRA period) would remain in force for the foreseeable future. DPIE have also indicated that the STRA provisions in the Housing SEPP could potentially be reviewed in 2024. Thus, if the Planning Proposal is withdrawn, there may be an option to revisit a possible 90-day cap at some point in the future.

Strategic Considerations

Community Strategic Plan and Operational Plan

CSP Objective	L2	CSP Strategy	L3	DP Action	L4	OP Activity
Community Objective 4: We manage growth and change responsibly	4.1	Support the visions and aspirations of local communities through place-based planning and management	4.1.3	Manage development through a transparent and efficient assessment process	4.1.3.10	Prepare a Planning Proposal to enable precinct based Short Term Rental Accommodation.

Recent Resolutions

- 20-001 – Council Planning Meeting 20 Feb 2020 – Planning Proposal for short-term rental accommodation
- 20-605 – Council Planning Meeting 19 Nov 2020 – Impacts and management options for STRA in Byron Shire.

Legal/Statutory/Policy Considerations

As discussed in the report.

Financial Considerations

The Planning Proposal and the Council associated documents prepared to date have been Council funded and resourced. This includes staff time and a budget allocation for the Planning Proposal preparation and drafting work.

This includes part funding of the Economic Impact Assessment prepared by Urbis for the DPIE PDU which cost a total of \$108,278 (Council contribution \$20,278).

- 5 Should Council seek to expand the work required for the completion of the Planning Proposal e.g., survey work or additional social and economic analysis, a further budget allocation would need to be made once this work was scoped.

Consultation and Engagement

Should the Planning Proposal proceed to public exhibition, community consultation and engagement will be carried out in accordance with the requirements of the relevant Gateway determination from DPIE and any other requirements of Council.