

**Submission
No 115**

**ADEQUACY OF THE REGULATION OF SHORT-TERM
HOLIDAY LETTING IN NEW SOUTH WALES**

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Submission to the NSW Legislative Assembly Committee on Environment and Planning in relation to the inquiry into the adequacy of the regulation of short-term holiday letting in NSW

Nature of communication

This submission complies with The University of Queensland's policy on Communications and Public Comments using The University of Queensland name. Specifically, it falls into section 6.1 which regulates the case of staff members speaking on a subject which falls into the area of their professional expertise.

Short biographies

Professor Sara Dolnicar is one of the leading tourism researchers internationally. She has authored more than 200 publications with most of her tourism-related journal articles appearing in the three leading international tourism journals. Her work has had exceptional impact, with long-term impact indicators, such as the h-index and the hg-index putting her in the top 5% and 2% in her field internationally. Professor Dolnicar's work has been continuously funded by the Australian Research Council (ARC) since 2003. She is the only tourism researcher who has been awarded a prestigious Queen Elizabeth II Fellowship by the ARC. She won more than a dozen awards for her work. In 2004 she was the recipient of the single most prestigious international tourism research award, the Charles R. Goeldner Article of Excellence Award. Professor Dolnicar has been elected a Fellow of the world's most prestigious societies for tourism researchers, the International Association of Scientific Experts in Tourism (AIEST) and the International Academy for the Study of Tourism, membership to which is limited to 75 people at any given time.

Dr Logi Karlsson is a postdoctoral researcher at The University of Queensland. He holds a PhD in Marketing. Dr Karlsson has worked both as a consultant and marketing manager in the tourism industry. Before that he worked in the public sector in Iceland for a decade. Dr. Karlsson has served on various consulting committees overseas, including committees advising tourism industry.

Scope of submission

Professor Sara Dolnicar and Dr Logi Karlsson are tourism researchers working on a research program that investigates a range of aspects relating to the availability and significant growth of accommodation offered on peer-to-peer networks. They are therefore in the position to comment on some, but not all, aspects which are listed in the Terms of Reference for this inquiry. Comments are provided under the respective headings taken from the Terms of Reference document.

Disclosure of potential for perceived conflict of interest

Professor Sara Dolnicar and Dr Logi Karlsson are working on a research program which investigates a range of aspects relating to peer-to-peer accommodation networks. They have accessed Airbnb hosts in a study of motivations of Airbnb hosts as well as the effect of different guest and inquiry characteristics on the acceptance or rejection of bookings. Professor Sara Dolnicar is using the services of both Airbnb and stayz.com to rent out a holiday home.

Responses to selected questions listed in the Terms of Reference

b) The differences between traditional accommodation providers and online platforms

Apart from price comparisons, no academic study to date has attempted to directly compare traditional accommodation providers and online platforms. Recent evidence (Tussyadiah & Pesonen, in press) suggests that tourists use online platforms mainly for two reasons: to make more meaningful connections with residents and to get quality accommodation at a lower cost.

Preliminary findings from our qualitative investigation support this. In our study we identify a number of other key differences perceived by Australian tourists which indicate that the two types of providers – traditional and online – complement each other quite well. A short summary of the aspects most relevant to this submission is provided below:

Online platforms	vs.	Hotels
Authentic		Uniform
Leisure		Business
Long duration		Short duration
Large space		Small space
Not serviced		Serviced
More surprises		No surprises
Value for money		Luxury
Cultural immersion		Entertainment
Learning		Relaxing
Personal		Impersonal
Uncrowded		Crowded
Limited regulation		Highly regulated
Deposit issues		Deposit safe
Available		Limited availability

c) The growth of short-term and online letting, and the changing character of the market

Peer-to-peer accommodation has changed some aspects of the market, but not others. First of all it needs to be said that renting out one's holiday home is not a new phenomenon. What online platforms like stayz.com and Airbnb.com have enabled, however, is for transactions of this kind to be more efficient. This led to the substantial growth of this sector of the accommodation market. This also led to a higher level of transparency and comparability of offers for the customers and for more pressure on the side of the providers of holiday homes to play by certain rules. For example, most platforms that facilitate peer-to-peer accommodation transactions have a review system in place where customers rate their experience. It is every host's worst nightmare to receive a negative review, thus incentivizing product improvement and the realistic presentation of their accommodation offers online. Another aspect of increased transparency is that of sellers effectively being put in the position of being able to accept or reject potential guests based on their booking inquiry. Just like the availability of reviews empowers customers to assess the quality of the accommodation they are about to book, the fact that hosts are able to decline guests empowers them to control the risk they are willing to take when renting their room or house out to strangers.

Unlike hotels, short-term letting networks can scale their supply to meet increased demand at a rate much faster than hotels. This can take place at next to no cost. Consumers benefit because capacity restrictions (more demand than supply) drive prices up and this can potentially be avoided. Also, increased short-term letting supply does not require new infrastructure. This can be important for already highly populated areas, or historically important areas, where there is limited space for new buildings.

PricewaterhouseCoopers (2014) report that peer-to-peer accommodation – a popular form of short-term letting – is one of five main contributors to a new economy which generates \$15 billion dollar revenue globally. This economy is commonly referred to as the “sharing economy” (Botsman & Rogers, 2011). In this same report it is estimated that the new economy will grow to \$335 billion in the next ten years. Airbnb, a major player in the peer-to-peer accommodation market, has seen their number of guests in summer rise by a factor of 353 in five years, or to 17 million (Airbnb, 2015). To date, peer-to-peer accommodation has mainly affected the budget end of the market, as opposed to luxury and business accommodation (Zervas, Proserpio & Byers, 2015). There is evidence to suggest that this could change (e.g. www.onefinestay.com and www.airbnb.com.au/business-travel).

d) The economic impacts of short-term letting on local and the state economies

The focus of our research is not economic in nature, we are primarily interested in the marketing aspects of peer-to-peer networks. But we have conducted extensive qualitative research both with users and non-users of peer-to-peer accommodation networks as well as a survey study with peer-to-peer accommodation hosts. It has become evident to us from this research that the economic impacts of peer-to-peer networks go well beyond income generated by accommodating tourists. The ability to rent out a property to tourists allows people to recover some of the cost of the property. Typically, they can recover at least the operating cost, frequently they are able to make a contribution to mortgage payment for the rented property from the revenues generated though making the property available on peer-to-peer networks. Effects on the **real estate market** are therefore likely. Many Australian residents can afford a holiday home because of peer-to-peer accommodation networks which otherwise they would not be able to afford.

A second interesting finding was that many hosts state that renting out a spare room, for example, provides essential income for them, income without which they would not be able to make ends meet. This impact may not be primarily economy-strengthening in nature. Rather it may have a role in taking **pressure off social services**. Short-term letting may in fact be a realistic way for lower income earners to improve their standard of living, assuming they have a spare room to let. Participating in the short-term letting market does not require one to have investment capital or higher education, so almost anyone can participate.

Other hosts stated that being a host on peer-to-peer networks allows them to afford luxuries they otherwise would not be able to afford. This is likely to have economic impact though **increased spending**.

In more mature short-term letting markets (such as the U.S.) numerous **new startup companies supporting the short-term letting market** have emerged. This includes services relating to guest screening and communication, key exchange, laundry, cleaning, price optimization, bookings, emergency contact service and household goods restocking.

Short-term letting markets are effecting profitability in the hotel industry, which in turn has the potential to benefit the consumer. A recent study (Zervas, Proserpio & Byers, 2015) shows how the growing short-term letting market has affected hotel prices in certain areas in the U.S., where hotel revenue dropped by 8-10% because hotels responded to the availability of alternative accommodation offers by reducing prices.

e) Regulatory issues posed by short-term letting including customer safety, land use planning and neighbourhood amenity, and licensing and taxation

Again, we need to state upfront that we are not lawyers and are not focusing on the legal aspects of peer-to-peer networks.

In terms of the consumer experience, including consumer safety we get the impression from our research with users and hosts that there is no systematic perception of having a worse experiences or less security. In fact, users of peer-to-peer network accommodation mention a significant list of additional benefits, including feeling like a local, immersing themselves in the place they are visiting, higher authenticity of the travel experience and the ability to obtain tips about which places to visit, where to eat etc. from locals rather than commercial guidebooks, commercial accommodation providers or travel agents. Other researchers have also suggested that there may be a segment of the market interested in visiting places other than the most popular tourist attractions (i.e. Guttentag, 2013). Hotels are more often near tourist attractions, airports and CBD's, while peer-to-peer accommodation has the potential to offer accommodation near less popular areas and sights where accommodation supply may be limited but needed.

Participants in our studies generally did not express safety concerns. The fact that the accommodation is profiled online and that many people have stayed there before and written a review gives them comfort. So the only possible increased risk would occur when new and untested properties are added to peer-to-peer accommodation network sites. Note, however, that peer-to-peer accommodation providers are aware that safety and trust are key issues that need to be addressed for their organisations to thrive. As a consequence they have put in place a range of measures to increase trustworthiness of accommodation profiled on peer-to-peer networks, such as customer review systems, links with social media profiles and identification verification systems where government verified ID's are used.

Note also that booking an unknown motel, just to give an example, may also cause tourists to have safety concerns, just as it may lead to disappointment because the reality did not live up to the webpage portrayal of the motel. It is important to keep in mind that the portfolio of accommodation offers available to tourists does not consist only of hotel chains and peer-to-peer networks, rather there are many other alternatives – including holiday homes offered by conventional online distributors, motels, caravan and camp sites, etc. – which may in fact raise higher levels of safety and other concerns among tourists than peer-to-peer networks do, possibly because of the level of transparency and continuous publicly visible evaluation and assessment which is an intrinsic characteristic of peer-to-peer networks.

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