Uber and Airbnb: the legal and policy debate in NSW

by Andrew Haylen

1. Introduction

The way in which people consume goods and services has changed dramatically since the birth of web and app-based sharing platforms. By connecting demand and share capacity in real-time, they act like “virtual matchmakers” by lowering transaction costs and facilitating arrangements that might otherwise have been too burdensome.

Airbnb and Uber are two platforms that have made their way to NSW in recent years, gathering considerable momentum with consumers. Their expansion has not come without detractors, most notably the long-established taxi and hotel industries.

Their regulation has consequently become an emerging policy concern, coming to the fore at the State level when Opposition Leader Luke Foley advocated the need for regulation of ride-sharing platforms such as Uber:

The sharing economy...continues to change our State. It is time for Government to engage with this collaborative economy by creating a framework for its use, and we should start with ridesharing. I will introduce a private member’s bill this year to regulate ridesharing in New South Wales. People are voting with their feet. Hundreds of thousands of people used Uber last year.

Premier Mike Baird stated it was “working with industry” and on 1 July 2015 the NSW Transport Minister Andrew Constance announced that an independent taskforce had been established to look at regulating Uber.

As a starting point to this policy debate, this e-brief outlines the legal status of Airbnb and Uber operations in NSW. As a preface to that discussion, it provides a brief overview of each platform and current usage in Sydney, and where applicable, more broadly in NSW.
While this paper presents selected stakeholder views regarding the regulation of these platforms in NSW, it does not assess or validate such views.

2. Uber business model and operation in NSW

Launched in San Francisco in 2010, Uber is an app-based platform that facilitates the coordination of independent drivers and “riders” (i.e. passengers). For the riders, the app displays the location of available drivers, the waiting time and an estimate of the fare. Riders may then set a pickup location and request a driver (Figure 1).\(^7\)

**Figure 1: Uber user app-interface**

![Uber app interface](image)

Uber’s pricing system is similar to metered taxis, calculating the price of each ride based on either distance or time. However, all payment is handled exclusively through Uber rather than the driver personally. The company automatically bills the fare to the customer’s credit card, with approximately 80% of the fare going to the driver.\(^8\) During times of high demand – such as major holidays or inclement weather – Uber increases its prices to “surge” levels in order to increase the supply of drivers.\(^9\)

Following the ride, both parties provide feedback on their experience through a ratings system, thereby “keeping them accountable for their actions and aligning incentives of both drivers and riders to maintain high ratings.”\(^10\) These ratings are reviewed on a regular basis by local Uber administrators. When a rating below a certain level is selected by either a driver or a rider, they are required to provide a reason for their low rating. This may trigger a consultation process between the relevant party and Uber.\(^11\)
Having launched in May 2014, Sydney is the principal city in NSW through which Uber operates – offering two principal products: uberBLACK which is a high-end hire-car service; and uberX, the most controversial platform, which allows passengers to book lifts with regular drivers who use their own cars. It also offers the UberTAXI product to taxi drivers.

Based on information in the latest IPART review of taxi fares and licences, about 11% of Sydney residents had used uberX in the second half of 2014.

On average, uberX partner drivers in Sydney work for 20 hours per week and earn $2,500 gross per-month. According to Uber:

uberX has provided…jobs to over 3,000 Sydneysiders in the past year, with $4 million going to the 30 postcodes with Sydney’s highest unemployment.

**Figure 2: Distribution of Uber drivers by postcode**

According to an article on the Uber website, the company had completed 1,000,000 uberX trips in Sydney by May 2015. Of these trips completed, uberX drivers had transported 50,000 people from the Sydney CBD Entertainment Precinct lockout areas on Friday and Saturday nights after midnight. Uber identified Sydney’s “hotspots”, where the most pickups occur after midnight on Friday and Saturday nights:

- Oxford St – Slide, Mr Crackles
- CBD – Argyle, Cargo Lounge, Star Casino
3. The policy and legal framework in which uberX operates in NSW

While Uber – the company – does not breach the law by offering the app-based service, drivers transporting passengers for a fare through uberX do.\(^{19}\) This practice is prohibited in NSW under the terms of the *Passenger Transport Act 1990*, which requires taxi and hire car services to be run through licensed operators. Transport for NSW made this clear in an April 2014 statement:

> Under the Act, such services must be provided in a licensed taxi or hire car, by an appropriately accredited driver, authorised by Roads and Maritime Services. The Act requires drivers to be fit and proper persons and vehicles to comply with specific standards to ensure an appropriate standard of safety for customers. A person who carries on a public passenger service in breach of the Act may face prosecution and fines. However, these laws do not apply to, for example, a group of friends sharing expenses or a car pooling arrangement between colleagues sharing a ride to the office.

As reported in the *Sydney Morning Herald* in March 2015, Transport for NSW confirmed that 20 uberX drivers were facing prosecution, after being issued with 77 court attendance notices for breaches of the *Passenger Transport Act 1990*. According to a spokesperson for Transport for NSW:\(^{20}\)

> There are different maximum potential fines depending on the charges laid under Passenger Transport Act. Maximum fines are $11,000 for driving without a driver's authority, and $110,000 for operating an unaccredited service and for using a vehicle which is not licensed as a public passenger vehicle.

A Bill to repeal and replace the *Passenger Transport Act 1990* was introduced to Parliament on 18 June 2014 and passed by Parliament on 10 September 2014. While the new *Passenger Transport Act 2014* received assent on 17 September 2014, it has only commenced in part.\(^{21}\) Regardless, no significant changes were made to the Act in the way it deals with ride-sharing services such as uberX. In her second reading speech for the *Passenger Transport Bill 2014*, Minister for Transport Gladys Berejiklian did however recognise the need to address the issue of ridesharing services:

> Other new services are emerging in the market, such as ride-sharing services. Transport for NSW is currently considering how these new services could be addressed. The bill will allow the Government to respond to the current investigations through

- Kings Cross – Hugos, World Bar and the 4 Seasons Chicken Spot
- Newtown – The Imperial Hotel, Zanzibar, Istanbul on King
- Double Bay – Casablanca, Pelicano, The Sheaf
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Regulation, although it does not deal with that specific issue. The level of regulation Government considers appropriate for ride-share services and whether third parties should be captured under the Act are substantial issues that the Government believes need to be worked through, including in consultation with industry and the community.

IPART also acknowledged, in their latest review of taxi fares and licences, the emerging role of Uber and the implications this has had for the taxi industry:

...about 11% of Sydney residents had used uberX in the second half of 2014. The growth of Uber was weakening demand for traditional taxi services and the price of a taxi licence, which dropped to its lowest level in six years late last year, has continued to slip in 2015.

In response, IPART called on the NSW Government to employ an independent body to make recommendations about the future regulation of ride-sharing services as well as taxi services: 22

We consider that competition from new entrants and existing players in the point-to-point transport market is irrevocably changing the landscape for the taxi industry in a fundamental way. How this will continue to develop is complicated by the different regulations applying to hire cars and taxis and the current illegal, unregulated status of ridesharing.

The current regulatory framework provides an uneven playing field for services that are effectively alternatives. We consider that the Government should commission a review of the regulatory framework for all point-to-point services. The review should be undertaken by an independent body such as IPART, tasked to make recommendations about a regulatory framework that addresses the impact of new technology, functions fairly across the point-to-point transport market, encourages innovation and competition and includes appropriate consumer and industry protections (safety of drivers and passengers, quality of service, availability of wheelchair accessible services).

In his submission to the IPART inquiry, Uber Director of Public Policy Brad Kitschke voiced his concern at the lack of regulatory response to its emerging technology: 23

Unfortunately, to date, regulation of this simple task in New South Wales has not kept up with these kinds of beneficial and now irreversible changes. Uber’s entry to the market in New South Wales has faced significant opposition from the incumbent industry. Our technology and focus on the consumer experience has exposed the existing regulatory regime as redundant in many respects. In the recent legislative consolidation through the Passenger Transport Act 2014, ridesharing was expressly and intentionally not included.
The current state of regulation in New South Wales governing for-hire ground transportation applies only and explicitly to incumbent models. This provides them with significant advantages while prohibiting, undermining and penalising new entrants and new models, regardless of merit and proficiency with regards to safety, security, reliability and customer service.

The NSW Taxi Council is one such incumbent body opposed to the entry of unregulated ride-sharing services. In an April 2015 statement, the NSW Taxi Council commented on the illegality of Uber, in particular highlighting the ineffectiveness of the app with respect to workers' rights:

…rideshare drivers are not only breaking the law, they may not have proper insurance or cover for workers compensation. Additionally, there’s no safety equipment or professional representation with support from an industry association.

In an earlier January 2015 statement, the NSW Taxi Council supported Government intervention through fines and court attendance notices:

The NSW Taxi Council welcomes the efforts of the NSW Government in taking steps to uphold the law by issuing court attendance notices to Uber X drivers offering illegal ridesharing services.

4. Airbnb business model and operation in NSW

Founded in 2008, Airbnb is an app and web-based platform for connecting and coordinating the short or long term renting of property.

Rental property owners advertise their properties, stipulating their own personal terms; with accommodation-seekers agreeing to stay in those properties based on those terms. The two parties to an Airbnb exchange must register on the Airbnb website. Airbnb takes a guest service fee of between 6 and 12% every time the reservation is booked.

As with many sharing platforms, Airbnb does not own any of the properties; they act as a facilitator for matching hosts with travellers. The focus, much like that of Uber, is on the idle space or excess capacity of resources. The Airbnb platform has a number of safety-related components and other features built in, including:

- no handling of cash – payment is transferred through Airbnb itself;
- profiles are attached to a reputational mechanism;
- guests and hosts both verify their identity by:
  - connecting to social networks;
scanning their official ID; or
  - confirming personal details. Hosts may require guests to have this ID verified before requesting the space.
- hosts also have the option of requiring a security deposit; and
- hosts are covered by up to $900,000 AUD in damages to their property through the Airbnb Host Guarantee.

According to a May 2015 report in the *Australian Financial Review*, “there are now 40,000 listings in Australia on Airbnb...That’s a doubling of listings in the past 12 months.” The article specifically noted that “Sydney was in the top 10 cities for travellers worldwide” for Airbnb.

In Sydney, there are currently 10,800 listings, 78% higher than a year previous. Outside of Sydney, there are 5,400 listings, taking the NSW total to 16,200 listings – this is 89% higher than a year previous.27 This map gives an indication of the proliferation of Airbnb listings in Sydney.

80% of Airbnb properties are located outside the main hotel areas (Central Business District, Haymarket, Potts Point, Surry Hills, and Darlinghurst). According to Airbnb:28

These activities occur primarily in suburbs that don’t have many hotels, where Sydney residents and businesses have not traditionally benefited from tourism.

It was estimated by BIS Shrapnel that between August 2012 and July 2013 Airbnb supported $214 million in economic activity and 1,642 jobs. This figure was estimated when there were 2,205 local hosts over that period. Given the significant growth in hosting numbers over the past year or so, this figure is likely to be considerably higher now.29

Roughly 60% of the listings on Airbnb are entire homes and 40% are private rooms. For the year between August 2012 and July 2013, hosts on average rented their primary residences for 37 nights per year and obtained $4,505 per year in rent.30

Airbnb hosts are diverse in age and many are “middle class”. The average age of an Airbnb host is 44 and 46% of Airbnb hosts earn at or below Sydney’s median household income ($1,447 per week).31
Between August 2012 and July 2013, the average stay of each Airbnb user in Sydney was around 4.2 days. 41% of users were from Europe, 25% from Australia and 21% from North America. The average age of a guest in Sydney was 42 years (Figure 4).

5. The policy and legal framework in which Airbnb operates in NSW

Short-term holiday rentals in NSW are overseen by councils, and zoning usually determines whether a home can be let out as a holiday rental.\(^{32}\) However, specific regulations around letting and subletting properties through platforms such as Airbnb are complex (or in many cases undefined) and vary from council to council.

Speaking with *Government News*, a spokesperson for the NSW Department of Planning and Environment said that councils had the power to set their own rules about short term letting in their Local Environmental Plans:

> Short term holiday letting of the type advocated by Airbnb can occur under the current planning system without the need to apply for development consent. However, there may be some instances where short term letting is not permissible as a result of the development consent conditions that apply to particular properties.

David Blackburn and Pauline Adaskelas, of Addisons Lawyers, published an article which discusses the legality of short-term rentals like Airbnb:

> Whether a property may be used for short term accommodation depends on the zoning of land and the exempt and permissible uses within that zone designated in the local council’s planning instruments. Less commonly, a property may be used in a way presently prohibited in the zone because of prior development consent or historical use (known as existing use rights).

There are already provisions in the Environmental Planning and Assessment Act 1979 (Planning Act) which enables any person to take action in the Land and Environment Court of NSW where a property is used without the necessary planning approval. While such action is usually taken by a local council seeking a declaration that the use is unlawful and orders that it cease in circumstances where complaints have been received that the use is causing an impact to other residents, such action could also be taken by third parties including aggrieved neighbours, hotel operators or industry associations.
While competitors to operators such as Airbnb could utilise the provisions of the Planning Act to take action against unauthorised use of dwellings for short term rental accommodation, this could only be on a case by case basis. There could never be a “test case” with wide ranging application, because in each case the Court needs to construe the relevant planning instrument and any applicable development consent or existing use rights and consider discretionary matters. At best, a competitor could target a specific building which is frequently let via one of the websites; a residential flat building in the City perhaps.

As for what has specifically occurred in NSW, the City of Sydney Council has warned that an individual could face a $750 fine for renting out their property without council approval. A City of Sydney Council spokesperson speaking to the Sydney Morning Herald stated:33

The City's Local Environment Plan does not permit mixing permanent residential use with tourist and visitor accommodation models in the same building. Advice should be sought before using any dwelling for tourist and visitor accommodation in order to identify if development consent is required.

As reported in the Sydney Morning Herald, Randwick Council has issued letters giving 10 days for property owners to respond to a warning they could be liable for a maximum penalty of $1.1 million plus an additional $110,000 a day for operating what it defines as "unauthorised" bed and breakfast businesses.

Short term renting is also not allowed in Waverley Council without prior council approval. A Waverley Council spokesperson noted:34

An applicant requires a planning approval and a construction certificate showing compliance with the Building Code of Australia.

If council receives a complaint about a property being used for short term accommodation without approval, we inspect the property, and the owner is requested to stop using the building illegally. Legal action will then be taken, which can include the issuing of fines, if the illegal use continues.

As reported in May 2015 on Government News, Gosford, Pittwater, Shoalhaven and Kiama Councils have given approval to short-term rental platforms such as Airbnb. Specific conditions of usage, however, may vary from council to council under their respective Local Environmental Plans. The Gosford City Council, for example, outlines conditions for short-term rental accommodation in Schedule 2 of the Gosford Local Environmental Plan 2014.

Airbnb recommends that its users are aware of the regulatory and legal regimes in which they operate. Upon reading Airbnb’s Terms of Service, users are immediately informed:35
…hosts should understand how the laws work in their respective cities. Some cities have laws that restrict their ability to host paying guests for short periods. These laws are often part of a city’s zoning or administrative codes. In many cities, hosts must register, get a permit, or obtain a license before listing a property or accepting guests. Certain types of short term bookings may be prohibited altogether. Local governments vary greatly in how they enforce these laws.

In their submission to the 2014 White Paper - A new planning system for NSW, Airbnb remarked on the lack of regulatory response to their business model:

Unfortunately, today this activity is clearly not regulated. One issue that warrants greater attention is the planning treatment of short stay accommodation in private residences. There is a lack of clarity on whether the provision of accommodation for occasional short term stays within a residential property is permitted use, resulting in ambiguity for both residents and local councils.

For example, many if not most of the properties and rooms listed on the Airbnb platform are what we term the ‘primary residences’ of the hosts (meaning that the hosts habitually reside in those residences), which are located in residential areas of varying densities. It is not clear whether the host’s residence would be altered merely by the host allowing for occasional short term stays, and if so why that should be the case.

At the same time, the current definition of ‘tourist and visitor accommodation’ typically includes clear commercial activities such as backpacker’s accommodation, bed and breakfast accommodation, farm stay accommodation, hotel and motel accommodation and serviced apartments. This definition is clearly inappropriate for the renting out of the whole or parts of the private residences for infrequent short-duration stays.

The planning treatment of short term stays in residential properties therefore seems to fall within an uncertain grey area. This uncertainty could undermine the clear and growing benefits to local communities from the Airbnb model.

We see merit in codifying the treatment of short term rentals on a State-wide basis. A clarification that occasional short term rental of one’s primary residence is not a commercial use and is therefore an allowable use of residential properties would enable NSW residents to rent out a room or their entire property on a short term basis, without facing the uncertainty of potential punitive action depending on the local government area in which the property is located. It would also ensure that the planning treatment of this type of short stay accommodation is consistent with the actual use of these residences across the State.

Acting CEO of Tourism Accommodation Australia (the hotel industry’s peak body) Carol Giuseppi objected to the unregulated
nature of Airbnb and noted that there was an obligation to adhere to the same, albeit, costly regulations as incumbent hotel providers:

The government should not pick winners and losers in the marketplace.

Ensuring short-term online rental companies adhere to the same city, state and federal regulations as hoteliers is absolutely crucial if there is to be a level playing field within the accommodation sector.

Under the Australian Building Code requirements, there is a significant investment made by accommodation providers to ensure that they meet the safety and accessibility standards.

Most of the Airbnb options have very few, if any, public safety measures in place for guests that traditional accommodation has.

Taxation laws are also at the forefront of the regulatory and legal issues that Airbnb faces in NSW, and more broadly in Australia. In some international jurisdictions authorities have introduced hotel taxes, or required Airbnb to collect taxes from the host at the time of the booking. Airbnb's Australian company manager Sam McDonagh stated that “Australia doesn't impose hotel or bed taxes on the company.”36

With respect to GST, users of sharing economy services such as Airbnb are not required to pay GST. This is because renting out a room in a house is “an input taxed supply of residential rent.”37 As confirmed by Australian Taxation Office Deputy Commissioner James O'Halloran:

…in relation to Airbnb and those types of operations, residential rent is not subject to GST.

With respect to income tax, the Australian Taxation Office stated that “Airbnb hosts still needed to declare any income earned from using the service in their annual tax return, and that to avoid doing so was tax evasion.”38 The Australian Taxation Office discusses these and other taxation obligations on their website.

6. Government reviews into sharing economy regulation

While a targeted review or inquiry into the regulation of these sharing platforms is yet to take place at the State level, two recent Commonwealth Government reviews have identified a number of regulatory aspects to these sharing platforms.

The first and most substantial being the recent Productivity Commission Draft Report into Business Set-up, Transfer and Closure. It discusses some of the regulatory grey areas through which new business models, such as Uber and Airbnb, operate. The main concerns identified in the report relate to consumer safety and
protection, public amenity, taxation and inequitable treatment of incumbents.

The Productivity Commission considers, in general terms, that regulatory approaches need to “to encourage businesses to innovate and offer products that benefit consumers and the wider economy, while proportionately managing the apparent risk to the community.” It discusses in more detailed terms specific regulatory principles with respect to the sharing economy in Chapter 8 of the report.

The second report is the *Competition Policy Review* completed in March 2015, which, in the context of regulatory reform for the taxi industry, acknowledges the emerging role Uber has had in disrupting the industry. With respect to the current “illegal” status of Uber, the Panel compiling the report does not “encourage new players to ignore or defy relevant laws or regulations.” Rather, its “primary concern is to ensure that the regulations respond to changes in technology in a way that allows new entrants to meet consumer demand, while continuing to ensure the health and safety of consumers.”

Similar to the Productivity Commission, the Competition Policy Review Panel recommended that any regulatory approaches to Uber and other mobile technologies be consumer focussed:

> Mobile technologies are emerging that compete with traditional taxi booking services and support the emergence of innovative passenger transport services. Any regulation of such services should be consumer-focused, flexible enough to accommodate technical solutions to the problem being regulated and not inhibit innovation or protect existing business models.

On 1 July 2015 the NSW Transport Minister Andrew Constance announced that an independent taskforce had been established to look at regulating the ride-sharing company Uber as part of a wider examination of the challenges facing the taxi industry. As reported in the *Sydney Morning Herald*, it will specifically look at competition in the market, the impact of taxi regulations, new technologies and customer safety.

Professor Gary Sturgess, formerly of the Independent Commission Against Corruption and the Independent Pricing and Regulatory Tribunal, will head the task force. It is due to hand back recommendations to the government by the end of October.

### 7. Conclusion

The growing popularity of uberX and Airbnb, along with the continued opposition from the established taxi and hotel industries, has seen the sharing economy emerge as a key policy issue in NSW.
It came to the fore in Parliament when Opposition Luke Foley advocated the need for regulation of ride-sharing and outlined his intentions of introducing a private member’s bill this year. Premier Mike Baird responded by stating that it was “working with industry” and has subsequently established a taskforce to examine the issue.

This paper does not seek to answer the policy questions at hand. It has, however, identified the ambiguities and inconsistencies of NSW regulation in relation to Airbnb, whose regulatory position varies by individual council.

While uberX is currently prohibited in NSW under the terms of the Passenger Transport Act 1990, the point-to-point passenger transport market has changed considerably since the Act was originally legislated. Whether the Act should be applied in the same manner to ride-sharing services as it is to taxis is therefore central to the debate.

The scope of this paper has been limited to briefly outlining the legal status of Uber and Airbnb operations in NSW; and as such is only a starting point for this policy debate.

There is considerable scope for further research, particularly regarding regulatory responses in other jurisdictions and how such responses might be applied in the NSW context. However, it should be noted that this is a highly complex area of policy, as regulatory proposals relevant to the sharing economy vary considerably by industry and are likely to impact on all levels of government. Even within a particular industry such as the point-to-point passenger transport market, regulation is multi-faceted and deals with issues such as licensing, employment conditions, taxation and consumer welfare.

1 PriceWaterhouseCoopers, The sharing economy: how will it disrupt your business?, August 2014, p.3
4 NSW Legislative Assembly, Parliamentary Debates (Hansard), 25 June 2015, p.12-13
5 NSW Legislative Assembly, Parliamentary Debates (Hansard), 25 June 2015, p.31
6 Sydney Morning Herald, Task force to look at Uber and taxi industry in NSW, 1 July 2015
7 Institute of Public Affairs, The Sharing Economy: How over-regulation could destroy an economic revolution, December 2014, p.6
10 Ibid
11 Ibid
12 Newcastle is the only other city in which uberX has operated in NSW. Following a three day-long storm in April 2015 that saw Newcastle and the NSW Central Coast declared
as disaster areas, Uber decided to launch its uberX service, on a relatively small scale, into the north of the State. Given the relative infancy of uberX in the Sydney context, there is no single and publicly available source of data for usage and other related statistics. Brad Kitschke, Uber response to the Independent Pricing and Regulatory Tribunal’s Draft Report of December 2014 about Sydney taxi fares and new licences, 29 January 2015 Uber, One Year, One Million Rides, accessed 25 June 2015 

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Airbnb, Airbnb: Economic Impact on Sydney and its Suburbs, 2013
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Final report is due for publication in August 2015.