

Management report to Council

Agenda item 6.3

Short-Term Rental Accommodation

Council

Presenter: Rushda Halith, General Manager Community and City Services

29 August 2023

Purpose and background

1. The purpose of this report is to seek Council approval to establish a policy position and progress work to track and regulate the Short-Term Rental Accommodation (STR) industry.
2. The City of Melbourne prides itself on being a city for all and believes that housing is essential infrastructure that leads to better emotional, social, and economic outcomes for all community members.
3. The national housing crisis is growing and impacting the housing system at all levels. Standard rental housing makes up 60 per cent of available accommodation within the City of Melbourne, and rental vacancy currently sits around 0.8 per cent – well below a healthy vacancy rate of three per cent. As STR supply increases, this contributes to lower rental vacancy which drives up prices and limits housing options.
4. Currently, 14 per cent of Melbourne's residential properties (approx. 4100 units) are actively used as STRs – and almost half are rented out for 90 days or more each year. This means fewer homes available for people wanting to find a home and live in Melbourne.

Key issues

5. The gap in the number of houses needed to meet current demand requires innovative approaches and multiple levers, including within existing building stock.
6. Based on global benchmarks and research (refer Attachment 2), including review of initiatives pursued by Sydney, London, Vancouver, Denver, Amsterdam and San Francisco, some of the levers being used by these cities include:
 - 6.1. Annual registration fee per property
 - 6.2. Day-per-year cap per property.
7. Striking the right balance with the short-term rental market will be critical, ensuring the City of Melbourne can support city residents and visitors. Feedback on the above levers will be sought via community consultation and targeted engagement with key stakeholders including the tourism and accommodation industry, noting that an STR Local Law would not apply to hotels.
8. These insights will guide the development of a draft Local Law and inform how the City of Melbourne can better balance the needs of visitors and hosts, boost business and grow the economy, while assisting to level the playing field across the housing market.

Recommendation from management

9. That Council:

9.1. Adopts the following policy position:

There is a need to track and regulate the short-term rental accommodation industry to relieve a tight housing rental market by increasing the availability of housing being used for longer term homes for people.

9.2. Approves in principle the implementation of a short-term rental accommodation Local Law by February 2024, that includes:

9.2.1. An annual registration fee per property; and

9.2.2. A day-per-year cap per property.

9.3. Requests management commence a consultation process to gather input from the community and stakeholders to inform the draft Local Law, and report back to Council on the outcomes of this consultation and next steps by November 2023.

9.4. Requests the Lord Mayor writes to the Treasurer and relevant Victorian Government Ministers in support of Council's policy position.

9.5. Requests management establish an approach, including relevant data points and metrics, to measure the success of the policy aspirations.

Attachments:

1. Supporting Attachment (Page 3 of 9)
2. Short-Term Rental Accommodation Overview (Page 4 of 9)

Supporting Attachment

Legal

1. The *Local Government Act 2020* sets out Council's powers to make local laws, and prescribes the statutory procedure that must be followed by Council when proposing to make a local law. The recommendation from management is a community engagement in advance of the statutory process.
2. A Council may appoint authorised officers for the administration of its local laws, who may act as required to carry out and enforce local laws, including entering land or buildings, and issuing infringement notices.

Finance

3. The costs associated with the proposal are considered in the operational budget.

Conflict of interest

4. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a material or general conflict of interest in relation to the matter of the report.

Health and Safety

5. In developing this proposal, no occupational health and safety issues or opportunities have been identified.

Stakeholder consultation

6. Consultation and advocacy will commence from 1 September 2023 prior to reporting back to Council by November 2023 outcomes of and seeking endorsement to commence the statutory consultation for a draft Local Law.

Relation to Council policy

7. This proposal aligns with key housing indicators from the Council Plan, the Affordable Housing Strategy, the Homelessness Strategy, and Major Initiatives 44: Homes Melbourne, and 48: Inclusive Melbourne Strategy.

Environmental sustainability

8. Environmental sustainability issues or opportunities will be explored through the community engagement process.

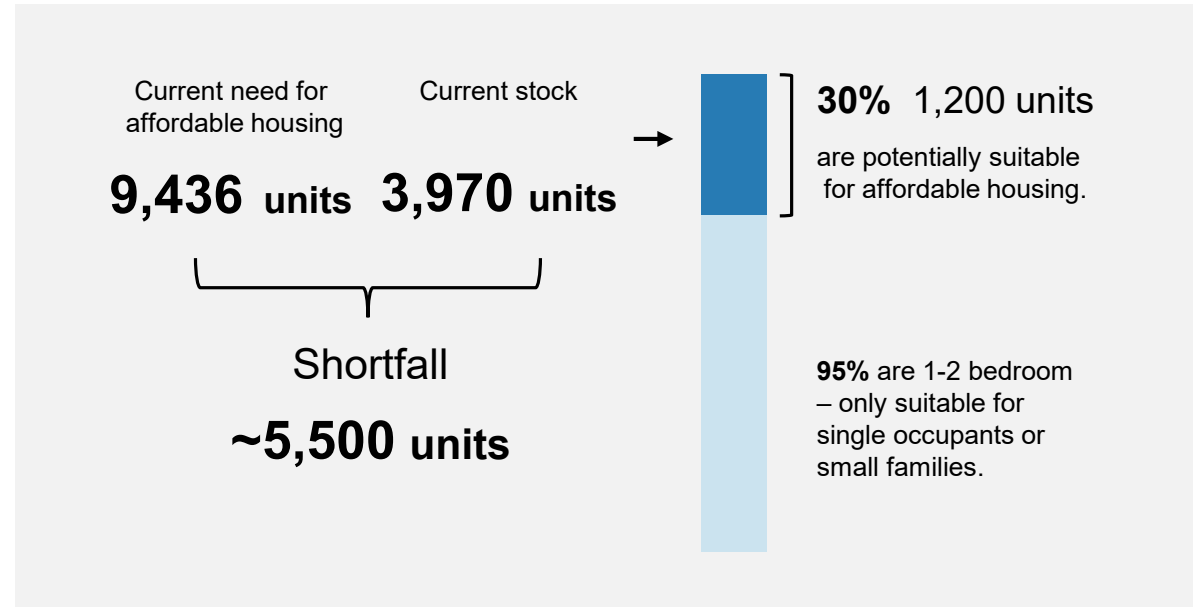
Short-Term Rental Accommodation Overview



The housing crisis is growing and impacting the housing system at all levels. Increasing housing stock gives renters bargaining power and frees up options available to low-income earners, improving housing affordability and reducing pressure on renters in the private rental market.

Rentals make up 60% of available accommodation within the City of Melbourne, and rental vacancy currently sits around 0.8% - well below a healthy vacancy rate of 3% - significantly limiting affordable housing options for the city's key workers.

The gap in the number of houses needed to meet current demand cannot wait for new buildings alone and requires innovative approaches that look for levers within the private rental sector to pull in more long-term rental accommodation.



→ While we can expect to see a relief in CoM's rental market due to the inflow of ~1,000 (25% of current STRs stock), we cannot accurately predict the benefit to low to moderate income households. However an increase in the supply of LTR's will reduce competition and pricing.

\$1.1K
Average weekly price for 1-2BR STR property^^
(in the City of Melbourne)

\$246-\$349
Affordable weekly rent for low income single or couple^
(in the City of Melbourne)

^ source: Homes Melbourne
^^ source: airDNA



4,100

Active STR listings in the City of Melbourne



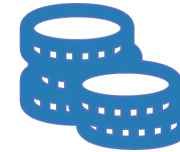
14%

Properties are professionally managed



53%

Decline from pre-COVID peak levels



\$245

Average nightly rate of an STR property in City of Melbourne



46%

of properties rented out for 90 days or more



84%

of properties are in CBD, Southbank, Docklands and Carlton



25%

of properties rented out for 180 days or more



88%

of properties are 1-2 bedrooms

^ Source: airDNA, Feb 2023

The economic costs of STRs likely outweigh the benefits. These costs include rising housing costs, less-reliable payment of city taxes compared to hotels, negative impact on employment, and a worsening of the affordable housing crisis. Even though STRs can provide a source of supplementary income for households or a sometimes less expensive travel option compared to a hotel – these benefits are not considered substantial enough to compensate for the many challenges they have created.

There is growing pressure from cities, communities and residents to regulate the industry. Cities are taking steps to prioritise the needs of their local population – for a range of reasons such as providing more affordable housing or responding to the overcrowding of tourists.

The impact of STRs on cities varies depending on the underlying contextual factors present. Destination cities that are popular to tourists are the most impacted. In cities where landlords have seen an opportunity to earn more money from listing STRs on 3rd party platforms - properties have been transitioned away from the long term rental market – in some cases evicting tenants along the way.

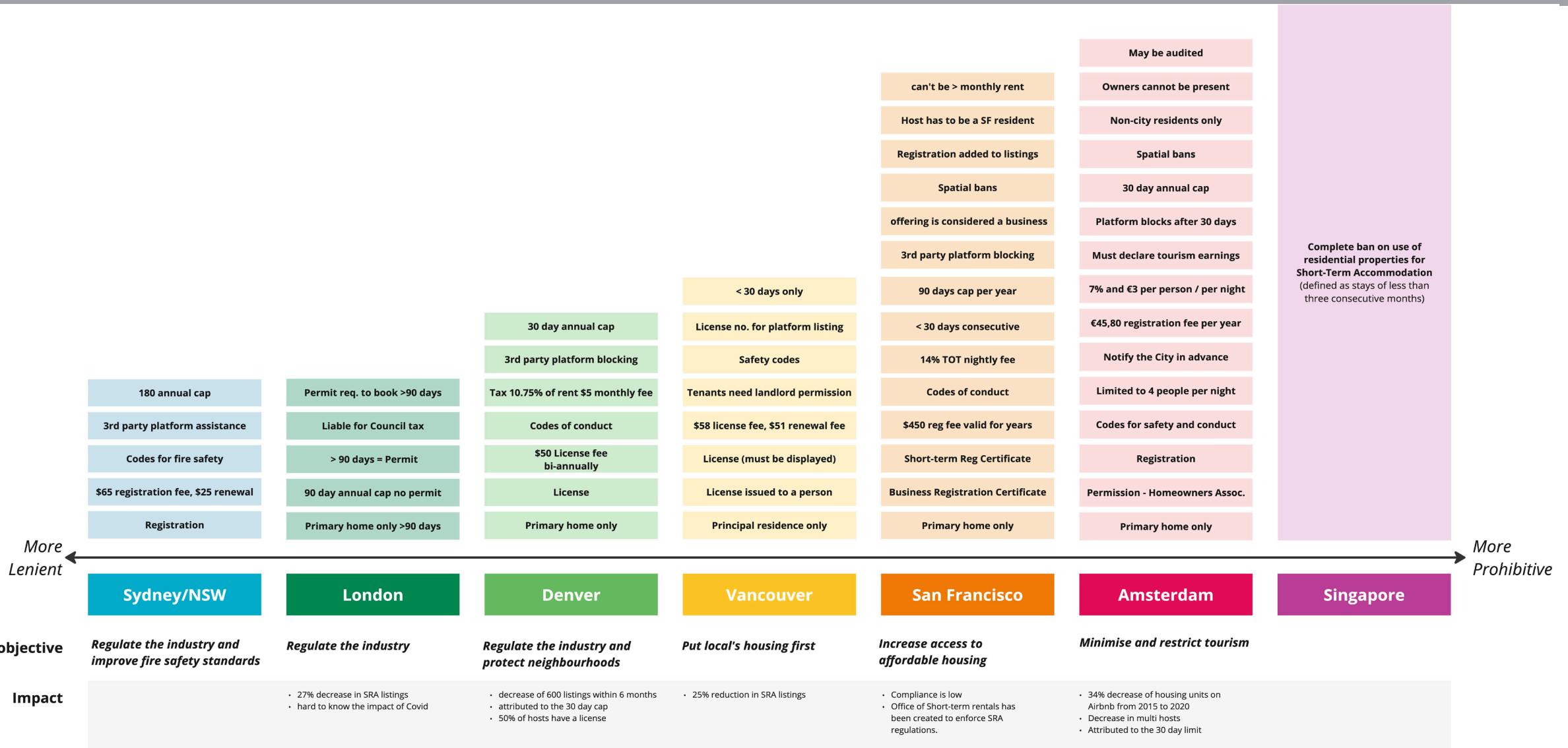
Regulations vary as each city destination faces a unique tourism demand pattern or housing challenge with a different set of negative side effects. On the extreme end, some cities such as Singapore have banned STR's altogether while others are taking small steps and cautiously monitoring the industry by collecting host data through registration. Many are taking a phased approach with ongoing policy adjustments (i.e. developing just enough features for the policy to be effective).

Our research focused on six cities



Sources: [^][International Journal of Contemporary Hospitality Management](#), ^{^^}[Economic Policy Institute](#).

Global benchmarking: from lenient to strict, how seven cities have regulated STRs^



^ For full list of sources see [slide](#)

Key objectives to regulating STRs

- Protect affordable housing
- Prevent commercial STRs
- Preserve residential living and neighbourhoods
- Address quality of life
- Minimise nuisance
- Preserve balanced mix of users
- Economic – raise revenue
- Level playing field in the hotel industry
- Ease pressure of tourism
- Ensure safety
- Regulate and monitor the industry

Regulatory mechanisms cities have taken to meet their context-specific objectives

