MERCURY

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Short Stay distorts the rental market

To ease the housing crisis, the state government needs to intervene in the rental market – and set new price signals for investors which would in turn increase affordable housing supply, writes **David O'Byrne.**

Tasmania's rental market continues to be at crisis point. Statewide rents have jumped 45 per cent over the past five years, and the market is the tightest in the country with a chronic lack of social and private-market rental properties. In April, Hobart had a tiny rental vacancy rate of 0.4 per cent – with just 136 vacant rental properties – a vacancy rate four times lower than Sydney, and nearly five times lower than Melbourne.

Insufficient affordable rental supply is not new, and is part of (limited) private market failure in the housing sector. The state government needs to intervene in the market and set new price signals for private investors and increase affordable supply.

Since 2014, Liberal governments have failed to produce an integrated policy. They have trumpeted billion dollar-plus investments in new affordable social housing supply but have delivered just a tiny fraction of their targets. Only 1250 new social houses have been built since 2015, an average of 180 per year. Meeting the 2032 target of 10,000 now requires 875 new builds per year or nearly five times the current output rate.

Meanwhile the number of struggling Tasmanian families unable to afford the private rental market continues to rise. With no immediate access to public or social housing, their situation is dire. Social housing waiting lists have ballooned from 2900 in 2016 to more than 4300 families today, with average wait times now exceeding 72 weeks. That could be 72 weeks in a tent, in a car, or on a couch. And the number of applicants on the register who are successfully housed has fallen from over 900 per year in 2015 to only 800 in 2021. Homelessness strips people of dignity, and is a key driver of wider social problems including mental health and substance abuse issues, and intergenerational inequality.

I have previously argued for the re-establishment of the Tasmanian Housing Commission as a key mechanism to ensure the timely construction of increased state-funded non-market (public) housing supply. But this needs to be supplemented by measures to improve the efficiency of the private market in delivering affordable rental properties.

As well as increasing the public housing stock, government policy should deal with the role short stay accommodation (such as Airbnb) has played in reducing private market rental supply. In this market segment the state government can create incentives for investors to release properties for use as rental accommodation.

The number of listed short-stay properties has nearly doubled since 2017 with 5300 Tasmanian homes now on short-stay accommodation platforms. More than half of these are not primary residences. In the greater Hobart area the share of the private rental market represented by short-stay is nearly seven times that of Sydney and nearly five times that of Melbourne. The gap between returns to investors offering short-stay accommodation and the yields available through offering the same properties as rental accommodation is distorting the market.

This market failure has prompted suggested policy responses such as placing a cap on the number of properties which can be offered in the future as short-stay accommodation and/or increasing council rates on such properties. But these approaches would create inequities and distortions in the market by not treating all investors and owners equally. A future cap gives a big market advantage to existing short-stay accommodation providers, while increasing council rates is a flat tax which takes no account of the wide income differences between bigger and smaller investors in a short-stay market that is becoming increasingly concentrated.

A fairer and more efficient approach is to introduce a simple short-stay state government levy (perhaps called a **rental market equalisation levy**), calculated as a percentage of the total booking fee and applied automatically at checkout, on all short-stay accommodation booking sites, such as Airbnb. It would apply only to non-primary residences.

This policy has several advantages.

First, applied at an appropriate rate such a levy would reduce the gap between returns on short-stay and rental accommodation. This would provide some incentive for current short-stay investors to move properties back into the rental market, and for current rental accommodation investors to remain in that market. And it would treat all investors equally.

Second, it is simple and easy to administer. Short-stay booking platforms already have the required infrastructure to collect levies – more than $5bn globally is already collected by Airbnb – so there are no extra administrative burdens for owners or short-stay renters.

Third, the income generated by the scheme would be dedicated to homeless services and crisis accommodation. Owners and investors would know that they are making a social contribution while still yielding a significant return on their investment.

Fourth, many investors will still choose to focus on the short-stay tourist market but there would be a more level playing field balancing the interests of other investors, tourists and long-term renters.

This market equalisation levy can be targeted to individual local government areas, and the size of the levy can be modelled using a variety of economic scenarios. The short-term aim should be to encourage at least 500 current short-stay properties to return to the private rental market, and to maintain a better balance between short-stay and long term private rental in the longer term.

This modest but important reform needs to work in tandem with bigger policy measures, including re-establishing a State Housing Commission.

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