

## ITEM 12

### Summary

- There has been significant growth in the number of properties being used for short-term lets over the last decade, supported by the growth of online short term rental booking platforms such as Airbnb. While there is currently no single data source that fully captures the size of the sector, the latest available data from the non-domestic rates (NDR) valuation roll shows the number of self-catering premises in Scotland in April 2023 (18,430) was up 93% from the level in April 2010 (please note that this does not capture businesses who operate from premises liable for council tax rather than NDR). Pre-pandemic data on Airbnb listings indicates the number of active Airbnb listings in Scotland in May 2019 (32,000) was around three times the level in 2016. The evidence indicates self-catering accommodation concentrated in tourist hotspots such as Highland, Argyll and Bute, City of Edinburgh, Glasgow City, Fife, Perth and Kinross and Dumfries and Galloway.
- In contrast, there has been a small decrease in the number of B&B/guesthouse premises on the NDR valuation roll over the last decade, with the number of B&B/guesthouse premises in April 2023 (1,455) down 2% from the level in April 2010.
- Average occupancy rates in Scotland continue to recover, with monthly self-catering occupancy rates in January – March 2023 at or above 2022 levels but remaining below pre-pandemic (2019) levels and B&B/guesthouse occupancy rates broadly recovering to pre-pandemic levels.
- Evidence on the recovery of the wider tourism sector shows promising indications, with GDP in the tourism sector now returned to pre-pandemic levels. Spending from overseas visitors to Scotland in 2022 has also recovered to pre-pandemic levels (to 10% above 2019 levels, when taking inflation into account) and overseas visit numbers have almost recovered (to 7% below 2019 levels).
- However, the macroeconomic environment remains challenging, with inflation remaining high, increasing costs for businesses and suppressing real household disposable incomes. The sector continues to be comparatively more impacted than average by staff shortages and the cost crisis which is impacting on business confidence. Despite the challenging economic environment, trip intentions are growing steadily, with 74% of UK adults surveyed in June 2023 intending to take a UK overnight trip in the next year (up from 70% in 2022) and 55% intending to take an overseas trip (up from 49% in 2022).

### 1. Number of short-term lets

There has been significant growth in the number of properties being used for short-term lets (STLs) over the last decade, supported by the growth of online short-term rental booking platforms such as Airbnb. There is currently no single official data source that fully captures the size of the short-term lets sector. A significant number of businesses in the short-term accommodation sector are not registered for VAT and/or PAYE and therefore do not feature in official statistics on the number of

registered businesses in Scotland<sup>1</sup>. Alternative data sources, including the Non-domestic Rates (NDR) Valuation Roll, can be used to indicate the number of unregistered businesses in the sector however this will not capture those businesses that do not operate out of premises that are on the NDR valuation roll but instead by Council Tax. Licensing will provide us with official statistics on the number of short-term let licensing applications which will provide further valuable insights into the sector.

**Registered businesses:** The latest available data from the IDBR on registered businesses shows there were 740 registered businesses in the 'other holiday and short-stay accommodation sector in 2022<sup>2</sup>.

**Businesses paying non-domestic rates:** The latest available data from the NDR valuation roll<sup>3</sup> shows there were 18,430 self-catering premises on the NDR roll in Scotland in April 2023, up 93% from the level in April 2010 (9,555 properties). The number of self-catering premises in Scotland has decreased slightly over the last year, down 1% from April 2022 (18,650 properties). The numbers of units per council area vary considerably, with data from October 2022 showing the highest numbers located in tourist hotspots such as Highland (5,050), Argyll and Bute (2,290), the City of Edinburgh (1,410), Dumfries and Galloway (1,400) and Perth and Kinross (1,100). In contrast, there has been a small decrease in the number of B&B/guesthouse premises on the NDR valuation roll over the last decade, with the number of B&B/guesthouse premises in April 2023 (1,455) down 2% from the level in April 2010.

**Businesses paying council tax:** Data on the number of self-catering businesses operating out of premises registered for council tax is not available. However, management information data from a Covid business support fund (Small Accommodation Providers paying Council Tax Fund) designed to support these businesses can be used to provide an indication of the potential scale of this part of the sector. The data shows almost 1,500 small accommodation providers on the council tax roll received support from the fund by late-April 2021.

**Airbnb listings:** Data provided by Airbnb, which will relate to premises on the NDR roll as well as premises registered for Council Tax, shows that there were 35,000 active listings in Scotland in January 2019, up 60% from 21,900 in 2016-17. The data shows the high level of geographic concentration of Airbnb listings with

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<sup>1</sup> The official source for data on the number of businesses operating in Scotland, the Inter-Departmental Business Register (IDBR), provides data on businesses that are registered for VAT and/or PAYE. There are a significant number of unregistered businesses in the short-term let accommodation sector. Businesses with a turnover of less than £85,000 do not have to register for VAT and may not use PAYE either, for example where a business is run by a self-employed person. Therefore, these businesses will not appear in the official statistics on registered businesses in the accommodation sector. Small self-catering businesses are likely to fall into this category.

<sup>2</sup> Source: Inter-departmental Business Register. This sector is defined as SIC 55.2 - it includes the provision of accommodation, typically on a daily or weekly basis, principally for short stays by visitors, in self-contained space consisting of complete furnished rooms or areas for living/dining and sleeping, with cooking facilities or fully equipped kitchens. The data here excludes holiday centres and villages and youth hostels.

<sup>3</sup> Source: Non-domestic rates Valuation Roll

Edinburgh accounting for almost four in ten (38%) Airbnb listings in Scotland in January 2019 and Glasgow accounting for over one in ten (11%).

## 2. Occupancy rates

**Self-catering:** Evidence on occupancy rates<sup>4</sup> indicates that, for the most part over the last year, self-catering occupancy has been above 2022 levels but remains below pre-pandemic (2019) levels. The latest available monthly data from Visit Scotland<sup>5</sup> shows the average self-catering occupancy rate across Scotland was 30% in March 2023, in line with March 2022 (30%) but remaining below pre-pandemic levels in March 2019 (37%). Occupancy was also slightly below pre-pandemic levels in January and February 2023 and for most of 2022 (except September and December 2022), including the peak summer months (self-catering occupancy rates in June, July and August 2022 were 51%, 60% and 55% respectively, below their 2019 equivalents of 59%, 64% and 67% respectively). The national level figures mask variation in occupancy by location, with large urban areas and accessible small towns having the lowest occupancy rates and accessible rural areas having the highest (both in the latest monthly March 2023 data and the latest annual 2022 data). Occupancy was higher in Scotland's islands, compared to its inland and coastal areas.

**B&Bs and guesthouses:** The latest available monthly data from Visit Scotland shows the average B&B/guesthouse occupancy rate across Scotland was 70% in March 2023, significantly higher than in March 2022 (36%) and in March 2019 (28%), indicating the March 2023 figure is an outlier, potentially due to the make-up of the sample. Looking at the annual 2022 data, which is based on a larger sample and is therefore more robust, the average B&B/guesthouse occupancy rate in 2022 was 55%, up from 42% in 2021 and higher than the rate in 2019 (50%). The national level figures mask variation in occupancy by location, with accessible small towns (26%) and accessible rural (33%) having the lowest occupancy rates in 2022 and large urban areas (74%) and remote small towns (73%) having the highest. Occupancy was higher in Scotland's inland and islands (both 61% in 2022), compared to its coastal areas (28%).

## 3. Performance and recovery of the wider tourism sector

Evidence on the overall health and recovery of the wider tourism sector shows promising indications. However, the macroeconomic environment remains challenging, with inflation remaining high, increasing costs for businesses and suppressing real household disposable incomes. The sector continues to be comparatively more impacted than average by staff shortages and the cost crisis which is impacting on business confidence.

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<sup>4</sup> Source: Scottish Accommodation Occupancy Survey, Visit Scotland. Data is based on a sample of accommodation providers via an opt-in voluntary survey. The survey is commissioned by VisitScotland and is carried out by The Moffat Centre for Travel and Tourism Business Development. <sup>5</sup> Source: Scottish Accommodation Occupancy Survey, Visit Scotland. The data is based on a sample of accommodation providers via an opt-in voluntary survey. The survey is commissioned by VisitScotland and is carried out by The Moffat Centre for Travel and Tourism Business Development.

<sup>5</sup> Source: Scottish Accommodation Occupancy Survey, Visit Scotland. The data is based on a sample of accommodation providers via an opt-in voluntary survey. The survey is commissioned by VisitScotland and is carried out by The Moffat Centre for Travel and Tourism Business Development.

Evidence from a range of sources indicates the wider tourism sector is continuing to recover. GDP in the tourism sector has now returned to pre-pandemic levels (up 3.2% in real terms in Q1 2023 compared to 2019 Q1<sup>6</sup>). Spending from overseas visitors to Scotland in 2022 has also recovered to pre-pandemic levels (to 10% above 2019 levels, when taking inflation into account) and overseas visit numbers have almost recovered (to 7% below 2019 levels). The data also indicates Scotland's tourism industry is recovering faster than the rest of the UK where 2022 visitor numbers were 25% lower and spend was 20% lower than in 2019, when taking inflation into account<sup>7</sup>. Trip intentions are also growing steadily, reflecting the importance of holidays even in a challenging economic environment. In June 2023, 74% of UK adults surveyed intended to take a UK overnight trip in the next year (up from 70% in 2022) and 55% intended to take an overseas trip (up from 49% in 2022)<sup>8</sup>.

The sector continues to be comparatively more impacted than average by staff shortages and the cost crisis which is impacting on business confidence. 44% of businesses in the sector experienced worker shortages in May 2023, above the Scotland average over 37% and 62% of businesses in the sector saw input prices rise from the previous month in April 2023, again significantly higher than the average across the Scottish economy at 42%.<sup>9</sup> Confidence amongst businesses in the sector therefore remains an issue.

STA survey data from May/June 2023 indicates that over half (52%) of tourism and hospitality businesses surveyed were in 'survival mode' (28%) or 'consolidation' (24%). The survey however found signs for optimism ahead of the summer season, with over half of respondents (53%) optimistic about the outlook for their business in June to September 2023 and 24% pessimistic. However, looking towards October to December 2023, over half of businesses (51%) felt pessimistic about the outlook for their business while just 20% felt optimistic<sup>10</sup>. Other survey evidence also indicates business confidence remains an issue in the sector with a higher proportion of tourism firms (35%) reporting a fall in confidence Q1 2023 than the proportion reporting an increase in confidence (25%)<sup>11</sup>.

## **Tourism and Hospitality Economics, OCEA**

### **27 June 2023**

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<sup>6</sup> Source: Scottish Quarterly GDP Index, Scottish Government

<sup>7</sup> Source: International Passenger Survey, ONS

<sup>8</sup> Source: Domestic Sentiment Tracker, VisitBritain

<sup>9</sup> Source: Source: Business Insights and Conditions Survey, ONS

<sup>10</sup> Source: STA Business Barometer

<sup>11</sup> Source: Scottish Chambers of Commerce Quarterly Economic Indicator