



**FINAL REPORT**

**Scoping research on supply and  
demand for short term lets in  
Scotland**

**Scottish Government  
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# indigo**house**

*The Collaborative Consultancy*

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# 1. Executive Summary

## 1.1 Context, research aims and approach

Scottish Ministers have recently established an independent expert panel to advise them on the opportunities that the collaborative economy brings, as well as the challenges that it presents. The Scottish Government's definition of the collaborative economy is that it connects individuals or communities via online platforms, thereby enabling the sharing or provision of goods and services, assets and resources without the need for ownership.

One of the key sectors within the collaborative economy is peer to peer accommodation. In this context, the Scottish Government has been receiving an increasing volume of correspondence about the effect that short term lets are having on the housing market in Scotland. It has therefore commissioned scoping research to help it understand the drivers behind this, and gather comparative data about the multiple sources short-terms lets are being marketed through. This research will help inform the expert panel on whether collaborative platforms are effecting Scotland's housing market in comparison to traditional models.

This scoping study provides analysis of the demand and supply of short-term lets market in Scotland and how this has changed over recent years; explores different business models providing short-term lets within Scotland, and identifies the key drivers of change in the market and whether these are demand or supply led. The research approach has involved a literature review, secondary data analyses of a range of sources on the supply of traditional and emerging models of short let accommodation, and consultation with over 30 stakeholders working in the tourism, housing and planning professions in Scotland.

## 1.2 Key findings

There is **lack of clear definition of a short let**, which makes the formal monitoring and recording of the scale of short lets difficult, especially now with the increase in more informal, emerging models of short lets marketed through internet platforms.

Despite these difficulties in tracking numbers, a range of indicators show the **growth in supply of short lets** across traditional and emerging sectors. There has been an exponential rise in the emerging market of short term lets as shown in the analysis of Airbnb listings. Some of this may be traditional short let supply using internet platforms as a route to market, whereas other supply will be new, whether 'homesharing' of private rooms, or letting of whole, privately owned flats or houses for occasional or commercial short letting. The growth tends to be location specific associated with thriving tourist centres and holiday locations. The growth in Edinburgh dwarfs most other places, but Highland has also seen significant growth.

There are **strong demand drivers** in this market. These are location specific, mainly driven by the **growth in tourism** in some parts of Scotland. The national tourism strategy 'Tourism Scotland 2020', was launched in 2012 with an ambition to grow visitor spend in Scotland by £1bn from £4.5bn to £5.5bn to 2020. Spend at the 2016 mid-term review was at £4.8bn. Tourism hotspots such as Edinburgh and the Highlands have seen increases in visitor spend of over 30% between 2010-2015. Other demand drivers include the increasing requirement to have **flexible business sector accommodation**.

On the **supply side, drivers** for short term lets is driven by the **potential investment yield** (location specific); **lack of regulation** in the short stay sector compared to alternatives in the residential market (which are increasing from 2018), and more stringent regulation in the more formal holiday short stay accommodation sectors (hotels and B&Bs); and, from April 2017 **tax disincentives in the residential sector**. Taking these altogether provides strong drivers for the short-let accommodation sector.

**Impacts of the growth of the emerging models** are identified in the literature review and confirmed through consultees. These are around displacement of residential accommodation, loss of community, health and safety risks, lack of accountability from absentee landlords and effects on the built heritage. Traditional hotels and B&Bs are concerned about the lack of level playing field in relation to health and safety regulation. Many cities across the world have sought to regulate the supply of short lets due to similar concerns.

The evidence shown for Edinburgh, Highland and Glasgow shows that the change in this market is not felt in the same way. While the evidence suggests there is negative housing market impacts in some high demand areas, in other areas this needs to be **balanced with the economic benefits of increasing the types and volume of accommodation for visitors**.

**The four key considerations arising from this study are:**

- How can the **impact on residential housing supply** be managed effectively? Should this be left to a Planning led system where change in use enforcement relies on reactive complaints, or should there be a change to tenancy law, or should another approach be developed?
- How can the **impact on change of amenity** be managed for residents and communities where there are concentrations in communities? Does this suggest a change of use class in the planning system, or something else?
- How can the potential **increased health and safety risks** caused by the effective change of use from residential to visitor accommodation be minimised? Risks are higher where there are multiple people in one flat in a property, and where there are multiple short lets in one stair. Can the current licensing system be used or adapted, or is something new required to manage these risks?
- The options to be explored to mitigate the risks to long term housing supply, the impact on communities, and the risks to health and safety should be **balanced against the positive role that short lets can play in Scotland's tourism economy**. This should allow for **location specific**, and **type of short let specific** responses to regulate the sector i.e. to recognise that different responses might be required for occasional (single property), regular (single property), and commercial short let (multiple properties).

The study has identified several areas for further investigation including: definition of short let; further drilling down of analysis at community level and tracing the movement of permanent to short let residences in high demand areas; analysing the extent to which the growth of the numbers on online platforms can be accounted for by traditional sector supply, and to explore the impact of growth of emerging models on the traditional holiday let sector. Finally, any intervention which may be proposed by Scottish Government should be subject to wider consultation across Scotland.

## 2. Research methodology and research authors

### 2.1 Research objectives

The Scottish Government objectives for this scoping study are to:

- Understand demand and supply of short-term lets market in Scotland and how this might have changed over last 2-3 years
- Identify the different business models providing short-term lets within Scotland and establish key facts on their usage
- Identify drivers of change in the short-term lets market and whether these are demand or supply led.

### 2.2 Research approach

The research approach has involved:

**A desk top literature / document review** – providing a focused review of published and ‘grey’ literature on this topic to help us understand definitions, and existing evidence on the operation of the short let market.

**Secondary data analysis** – Using a range of sources on the supply of traditional and emerging models of short stay accommodation. This includes data on short stay provision advertised by Airbnb in Scotland supplied by AirDNA. We have analysed the operation of this market geographically, temporally and providing insight on volume, transaction values and letting periods. This analysis is presented in traditional tabular form, and in data visualisation formats which are web based and interactive which give a powerful method of understanding the data at different geographies, and over different timeframes.

**Analysis of the current business models** – through in-depth consultation with key stakeholders in the Scottish tourism market, residential letting market including the short stay markets, local authority housing and planning representatives with an interest in this area, and build to rent private developers who have valuable insight on the operation of this market. A key element of these discussions has been around the housing market impacts.

**Case studies** – bringing together the secondary data and primary qualitative evidence, two case studies are presented to illustrate the prevalence of short stay accommodation by different types of markets, the key drivers to short stay accommodation (whether demand or supply led), and the potential social and housing market impacts.

**Final conclusions** – conclusions on what this scoping research has shown us, with recommendations on what other investigation is required to shed further light on this subject. It is emphasised that this is an initial scoping study and so the work identifies areas of further work required to fill identified gaps in knowledge, and to verify qualitative data.

**Limitations** – This report relies on data provided by AirDNA to provide an overview of the Airbnb market. It should be noted that the extent of the platform based short term accommodation market extends beyond Airbnb and there are several other platforms as

discussed in this report. There will also be duplication between platforms with many individuals and commercial operations using multiple platforms to advertise their short-let property. However, Airbnb is the key player in this market and the authors believe it provides a fair representation of the trends in the emerging market. AirDNA data provides a level of granularity, area coverage and currency that is not matched by some of the non-commercial open data sources (see <https://www.airdna.co/services/datafeed>). Any further work required on the Airbnb market specifically in Scotland could usefully involve dialogue with Airbnb to obtain direct access to its data. That has not been possible for this scoping exercise.

## 2.3 The Indigo House Group and the authors

The Indigo House Group (Indigo House) is a collaborative consultancy, founded on the established track record of its founding members [Anna Evans Housing Consultancy](#), i.s.4 Housing and Regeneration and Anderson Business Development. It is an end to end housing and regeneration consultancy providing research and diagnosis, strategy development and business planning, organisational development and change management in the housing and regeneration sectors. We work with a wider a network of consultants, and together we offer an unrivalled range and depth of integrated services to help clients solve the challenges that housing organisations and social enterprises face in today's uncertain environment.

**The authors** of this work are:

**Anna Evans** is a founding Director of Indigo House. She comes with a well established research and consultancy record through [Anna Evans Housing Consultancy](#), with over 20 years advising in housing research and housing policy. Anna's research specialisms are in housing market and needs assessment, intermediate/mid-market rent research, private rented housing, homelessness, and temporary accommodation.

**Dan Cookson:** Dan is a specialist housing market research and data visualisation analyst, widely recognised as an innovator in the analysis of the sales and rental markets in Scotland and UK. He provides bespoke research and commentary for a wide range of clients in the private, public and not for profit sectors.

**Professor Douglas Robertson** – Douglas's research expertise focuses on sociological understanding of place, belonging and identity and examining how these influence society in relation to social and housing policies. He is also an expert on the private rented sector, having previously chaired the Scottish Private Rented Sector Strategy Group, and later the Private Rented Sector Tenancy Review Group for the Scottish Government.

### 3. Context to traditional and emerging models of short let accommodation

#### 3.1 Background

The following discussion provides context on traditional and emerging models of short let accommodation, provided through a review of published and 'grey' literature. Appendix 1 provides a comparative review from nine international cities and references to the literature.

The combination of internet infrastructure and the simplicity of access via smartphone technology is having a 'disruptive effect' on traditional or long established economic models right across the globe. Businesses have responded by creating platforms which allow peer to peer exchange - Ebay was the early pioneer, but recently the two best known of such platforms are Uber (<http://www.uber.com>) providing taxi service and Airbnb (<https://www.airbnb.co.uk/>) offering holiday rental accommodation.

There are two elements to this particular change: one is growth in the notion of sharing, the so-called 'sharing economy'; the other is that consumers take on various tasks or functions that were previously undertaken by other parties, increasingly known as the 'collaborative economy'.

Srnicek's (2016) argues that while internet platforms are intermediary infrastructures which serve to bring together different people together, he also cautions that the data is used for managing and maximising on the market dynamic. The 'network effects' means the greater use of such services, the more important they become, and the greater risk there is of creating monopolies. This is why venture capital has funded such emerging models as they assume some will, in time, become monopolies and deliver high returns on that initial speculative investment.

The business model is simple. On one side of the market the internet platform 'contracts' a service with the customers then on the other side, independent service providers deliver that service using their own assets. The platform acts as an intermediary - it does not directly employ the service providers, nor does it have any ownership of the assets that are used to provide the service. Some of these platforms require certain service standards, with online service users reviews being the main way of monitoring standards.

Consumers taking on tasks previously performed by others has been one core innovation element within the tourism sector. The advent of cheap flights was driven by passengers processing their own bookings on-line, work previously carried out by the airline itself or a travel agent. Now within the last 10 years there have emerged new on-line platforms which allow residents to raise income by offering their homes, or part of their homes, as short-stay accommodation to visitors. This informal tourist accommodation sector has grown exponentially, linking those who want to "live like locals" with locals who have the accommodation to let to allow them that experience. While letting holiday homes via the internet has been commonplace for many years, the move into renting residential accommodation, primarily in popular tourist cities, is new. Short-break holidays, promoted and encouraged by readily availability of cheap flights, has greatly contributed to encouraging this recent change. The disruption caused within one market brings about repercussions in another.

Airbnb is the best known of a series of similar businesses which offer an identical service, whether offering bedrooms in shared accommodation, or short let stays of entire flats or houses: Wimdu, 9flats and Roomorama. There are also niche competitors, such as Onefinestay, which specialise in more expensive short-let options. Then there are also several major companies, including HomeAway, HouseTrip and FlipKey, which is a TripAdvisor a subsidiary. While they are similar to Airbnb, their prime focus is on bespoke holiday accommodation letting, not primary residences. And finally, there are 'hospitality networks' such as CouchSurfing, which offer tourist accommodation, but by contrast this is free of charge reflecting a sharing model. There is also strong evidence of a consolidation of these various platforms occurring and, as part of this, more interconnectivity between the two core elements in any trip, the travel and accommodation, as was common in years gone by (AIG Phocuswright, 2016).

The speed of Airbnb's exponential growth is striking. By December 2014, Airbnb had amassed a global portfolio of one million listings, exceeding the capacity of the three largest hotel groups in the world, Hilton, InterContinental and Marriot. It started in 2007 when two graduates decided to undercut high hotel prices in San Francisco, when a major conference was in town, by created a basic website to advertise three air mattresses, with breakfast thrown in. Hence, the name Airbed and Breakfast. After enjoying some moderate success, especially after the 2008 Democratic National Convention, their website was re-launched in 2009 as Airbnb.com, and the service expanded beyond shared accommodations to also include the rental of full residences. In 2015 Airbnb was valued at \$25 billion (Statista, 2017).

Across both Europe and North America major tourist cities have started to come down hard on these emerging models because short-term lets are being seen to be take away available rental stock in what are often seriously stressed local housing markets. Concerns have also been raised about the detrimental socially disruptive impacts on other residents, through encouraging a different pattern use for the properties used and, at the extreme end, the emergence of the well-publicised 'party flat' phenomenon where such let's facilitate noisy and ruckus 'hen and stag' parties. Other emerging social concerns, as more properties switch into offering such lettings, has been the transformation of once residential inner urban neighbourhoods into major tourism accommodation centres, and with it the loss of neighbours, who are replaced by a steady stream of ever changing tourists dragging behind them their noisy flight bags. Over the last couple of years' cities such as Amsterdam, Barcelona, Berlin and New York have each reacted in different ways to try and manage and, in some cases, restrict such lettings. Now this complex and challenging debate has emerged in Scotland, particularly in the city of Edinburgh.

In reviewing the literature on this subject, a set of common themes emerge:

- Definitions and performance – What is a short let, and how do emerging models perform against traditional models;
- Impacts of short term lets on traditional businesses – such as hotels and Bed and Breakfast accommodation;

- Lack of regulation and safety standards - because this is a largely unregulated emergent market, with disparity between new and more regulated hotel, B&B and residential markets;
- The impact on local housing markets – a growing theme as the emerging models are moving from sharing part of someone’s home, to increasingly letting stand-alone rental entity through platform models;
- Nuisance and noise – which comes from concentrations of visitors producing a demand for greater planning and stricter licensing at the local scale;
- Impacts of this model on local taxation income – in European cities which levy a local tourist tax there are concerns about local government income streams, as collection is much harder in this less regulated sector.

Throughout this review a number of international examples are offered as illustration of these issues.

### 3.2 Definitions – what is a short let in Scotland and its regulation in Scotland?

There is no absolute definition of a short-term let in Scotland, and document review and consultation reveals it is a ‘grey area’. Most people define it by what it is not in residential terms i.e. not a main or only residence whether on the basis of an owned residence, short assured, assured or Scottish secure tenancy. It is also defined by UK and local tax regulations.

HMRC tax guidance (2015) for furnished holiday lets determines that the property must be:

- Available for letting as furnished holiday accommodation for at least 210 day in the year (not counting days when the owner is staying in the property);
- Let as furnished holiday accommodation to the public for at least 105 days in the year;
- Have no lets that exceed 31 days (unless the 31 days is exceeded because something unforeseen happens, for example the holidaymaker falls ill or a flight is delayed etc.).

While short-term lets should be no more than 31 days for business tax purposes, it is noted from consultation with agents that some occupants will stay longer than this in the same property by entering new short-term let contracts every 31 days (or less).

If a property is available for let for less than 140 per year it comes under the Council tax system, if it is let for more than 140 days a year it will be rated as self-catering and liable to business rates (mygov.scot 2017) .

For holiday lets, there is no formal tenancy in Scottish law, with visitors being covered by Section12 (2) and paragraph 8 of Schedule 4 of the Housing (Scotland) Act 1988. This sets out several types of tenancy which are excluded from assured or short assured tenancies, including student accommodation, holiday lets and resident landlords.

The Rent a Room Scheme lets home owners (or tenants with permission) to earn up to a threshold of £7,500 per year tax free from letting out furnished accommodation (GOV.UK, 2017).

This lack of clear definition creates an opaque landscape when it comes to regulation:

- **Traditional B&B, hotels and commercial self-catering** - Regulation is clear in certain aspects in the traditional short term holiday accommodation sector where there is published regulations in terms of fire (Scottish Government, 2008 and 2010), other health and safety (HSE.gov.uk), and food standards (Food Standards, Scotland 2015).
- **Private rented sector** - Regulation is also clear in the private rented sector where landlords must meet a fit and proper person test and register with the local authority. They must also meet requirements in relation to fire, gas and electrical energy performance, and the repairing standard and tolerable standard (Renting Scotland, 2017). None of these apply to private residential accommodation which is being used for short let accommodation, other than planning and building legislation that apply to private residential dwellings.
- **Planning law** determines all land uses, with relevant land use being Class 7 Hotels and hostels, and Class 9 Houses and Sui Generis a residential flat (Town and Country Planning (Scotland) Act 1997). In Class 9 there is limited use as a bed and breakfast or guest house. Any change in use constitutes the requirement for planning permission, but each case must be examined on its own merits and will be governed through policies set out in Local Development Plans. Planning enforcement relating to change of use is a discretionary power. Each local authority must consider whether it is the public interest to take enforcement action, and again, it must consider each case on its merits with the overall purpose of enforcement being to 'resolve problems, rather than to punish mistakes'. (Scottish Government, 2009).
- **Houses in Multiple Occupation (HMO)** - the Housing (Scotland) Act 2006 sets out **license requirements** in relation to properties let out by at least 3 (unrelated) people who share the bathroom or toilet and kitchen. This stipulates requirements in relation to fire, health and safety, and comes with significant fines of up to £50,000 for operating without such a licence (Scottish Government, 2012). There are no provisions which require licensing of short term holiday lets.
- **Noise nuisance and environmental protection** (including waste) are governed by the Anti-Social Behaviour etc Scotland Act 2014, and the Environmental Protection Act 1990.

### 3.3 Performance of traditional and emerging models

Li *et al* (2015) argue that a major difference between markets that follow a sharing or collaborative economy, and traditional two-sided markets is that in this new model the supply side includes many individual non-professional decision-makers, in contrast to firms and professional agents.

Using Airbnb listing data on prices and availability for Chicago, for a four-month period from December 2013 and March 2014, they found a marked difference in the operational and

financial performances between the two host groupings. Properties managed by professional firms or agents earned 16.9% more in daily revenue, had 15.5% higher occupancy rates, and were 13.6% less likely to exit the market compared with properties owned by non-professional hosts, even after controlling for property and market characteristics. The lower prices of the emerging models is evidenced by recent STR research (2017) which confirms that across 13 global markets including two European cities London and Paris, that hotel average daily rates were generally higher than Airbnb rates, and that hotel daily rates has increased in all but one market (Paris) in the year ending July 2016, and Airbnb rates had decreased in eight markets, but increased in five. The affordability argument of Airbnb is also supported by a recent report on the London Housing Market (IPPR, 2016).

However, we must be careful in comparing the traditional and emerging model as we run the risk of comparing apples with pears. The collaborative economy may be quite different to a normal business model, given the range of priorities influencing individual decision-making compared to professional short-term let businesses.

### **3.4 Tourism and impacts of emerging models on traditional short let and hotel models**

The tourism market overall is growing. This is against a Scottish tourism strategy that has a target to grow visitor spend by £1bn from £4.5 to £5.5bn between 2012 and 2020. The mid term review in 2016 shows growth in total overnight visitor spend between 2010 and 2015, with thriving destinations including Edinburgh with a growth of 7%, Arran 17% and Glasgow 19% between 2011 and 2014 (the Scottish Tourism Alliance, 2016).

Figures suggest that over the last five years, the volume of domestic UK holidays taken in a rental property has increased by 20%, with the value of the holiday rental market has increased by 38% (Mintel, 2014). Mintel forecasts continued growth in the sector and expects a 6.2% increase in the volume of domestic visits spent in holiday rentals by 2018. It is also the case that consumers who stay in such holiday rental accommodation stay longer and so spend more per trip than visitors who stay in traditional hotel or B&B accommodation. The majority of holiday rental stays are between 4-7 nights, with a quarter of all visits lasting longer than a week (Scanlon *et al*, 2014). This suggests that for areas with this type of accommodation more cash is being spent locally, so it might produce a better economic multiplier than the traditional hotel. But again, we run the risk of comparing 'apples and pears', given that a significant part of the hotel market is business customers, and not tourists. More research is needed in this area.

Overall, in terms of the wider economic benefits, it is estimated that owners of holiday rental properties in the UK spent grossed some £450 million running their businesses, which includes £120 million employing staff, which sustains about 6,000 jobs. From this approximately £100 million in tax is paid on their holiday-rental businesses. Translating this into net figures, covering the direct impact are lower, reflecting the fact that most of these properties would be in other economically productive uses, if their owners did not choose to use them as holiday rentals. For the UK overall, the net expenditure by holiday rental owners is thus estimated at around £135 million in 2014, of which about £35 million went on

employing outside workers (responsible for an additional 1,800 jobs) with the net tax contribution from owners was about £30 million (Scanlon *et al*, 2014).

The British Hospitality Association continues to lobby the UK Government on the disruptive and they suggest often unintended impacts of what they term the 'sharing economy', which they consider to be a direct challenge to their long-established and regulated business model. In particular, they want to see a level playing field introduced, noting that currently short-let landlords are able to circumvent tax, food, health and fire safety regulations thus ensuring they have an unfair trading advantage over other traditional accommodation providers.

These concerns were highlighted in a recent review of the provincial hotel market, for property investment purposes. Knight Frank noted:

*"The rise of the sharing economy has evolved through the rise of technology and the birth of social media, which have facilitated the task of renting and sharing. Increasingly the model is becoming more sophisticated, more diverse, more inclusive and more innovative, thereby becoming an increasing threat to hotels and in particular hotels with a non-differentiated product. The threat that the sharing economy is having on the profitability of the hotel sector cannot be ignored, especially with third parties such as corporate travel agents adding further weight and credibility to the sector".* (Source: Knight Frank, 2016)

For hoteliers, a key quibble is that Airbnb takes no responsibility for its hosts, given that they describe themselves solely as a platform with hosts contractually taking on all responsibilities to meet local regulations. Airbnb would counter this as hosts are required to certify that they will comply with local rules. The question is who checks whether hosts actually comply with regulations. Hotels, for example are inspected for fire regulation. So while hotels are tightly regulated, in terms of fire and health and safety regulations, Airbnb premises are subject to no actual physical inspection (Bennett, 2016). Airbnb property is essentially considered to be residential in nature, and not a commercial hotel. There are also broader concerns such as who ensures that Airbnb hosts do not racially or sexually discriminate against certain guests?

Airbnb's response is to argue that it complements rather than competes with the traditional hospitality industry, spreading the economic benefits of tourism to entirely new communities and small businesses.

In response to concerns about platform advertised short let accommodation not operating a level playing field the American Hotel & Lodging Association is currently promoting an industry-wide initiative to bring this about. As part of this initiative they have funded research that revealed platform advertised accommodation in effect operates illegal hotels. It suggested that a substantial proportion of Airbnb's revenue stream and recent growth is generated by two overlapping groups of hosts, multiple-unit operators who are renting out two or more units, and full-time operators who are renting their unit(s) 360 or more days per year (O'Neill and Ouyang, 2016). This is a direct challenge to the notion that Airbnb is complementary not competitive operator. It also moves the debate into the area of taxation, which are discussed further below.

### 3.5 Impact on housing markets

The issue of short-lets impacting on pressurised local housing markets is best illustrated by Berlin, although other cities face similar issues such as Amsterdam, Barcelona and Paris. Appendix 1 provides details of approaches from nine different cities.

German research revealed that buying and renting out entire flats to tourists, via online agencies such as Airbnb and Wimdu, has recently become a highly profitable enterprise, with some businesses now managing hundreds of properties. Partly as a result of this, Berlin which once had a surplus of accommodation, now finds itself trying to manage a severe and growing housing shortage (Robertson, 2016).

The city is expected to grow by about 45,000 inhabitants each year and that is before accounting for the 60,000 plus refugees who have arrived there in the last two years. To address these pressures, the city plans to build an additional 220,000 dwellings over the next decade.

The city's planning bodies will help ensure that a third of all new housing is affordable, in line with Berlin's strict rent control arrangements which operate at a neighbourhood level (O'Sullivan, 2015). In addition, Berlin's housing costs have remained affordable because of a law known as Zweckentfremdungsverbotsverordnung, which explicitly prevents owners from changing the use of properties making it difficult to convert residential buildings into commercial property. This has protected much of the city's housing stock from development since the Second World War. Similar by-laws also exist in other large German cities, such as Hamburg and Munich.

Within this increasingly pressured housing market, it is thought that Berlin has about 20,000 'guest-flats', which if made available for normal rather than tourist letting could supply one year's entire demand. It is within this context that the city authorities decided to try and better regulate the growth of short-lets.

In May 2016 Berlin announced that it was banning city residents from renting out their flats to tourists through Airbnb, unless they had received explicit permission from the Berlin Senate, a move was justified on the basis of acute housing shortages, recent unprecedented population growth and marked changes in Europe's housing system following the financial crisis of 2008 (BBC News, 2016).

Two years previously, Berlin's Parliament altered Zweckentfremdungsverbotsverordnung to include short-term leases on 'guest-flats', allowing a two-year transition period. This made the short-term leasing of entire flats illegal, with breaches punishable by a €100,000 (£78,000) fine. Under the new law, it is still legal to rent out rooms in one's own flat, but they cannot take up no more than 50% of the floor space. Further, in February 2015, Berlin's State Court reinforced earlier rulings against subletting, granting landlords the power to evict tenants if they are caught subletting their apartments (The Local, 2014).

Other cities are sitting up and taking note of this more regulated approach: for example, Amsterdam is currently engaged in trying to limit Airbnb rentals, too. Richard Ronald, Professor of Urban Studies at the University of Amsterdam, recently noted that: "*The city of Amsterdam has struggled with the rise of Airbnb, and while it initially sought to regulate*

*growth, it has increasingly been forced to crack down on the sector. In the context of Amsterdam's large, but very tight rental housing supply, there have been concerns over landlords switching properties from regular contracts to short-term tourist lets." (Robertson, 2016).*

Amsterdam initially opted for a regulatory approach whereby the city council in 2014 passed a new private rental law which allows residents to occasionally rent out their homes, for up to two months per year, when the property would be vacant. There are, however, certain conditions such as the payment of all related taxes, including tourism taxes, and as long as there are no complaints from neighbours (Coldwell, 2014). Amsterdam announced these new arrangements as a co-operative effort with Airbnb, in which the city will levy a tourist tax on all such rentals, while Airbnb agreed to work to ensure potential hosts are made aware of all pertinent rules and regulations. The authority plans to enforce this legislation via computer systems monitoring online short-let advertising.

### **3.6 Local planning and licensing concerns**

Besides the housing impacts discuss above, the uncontrolled growth of short-term letting to tourists is now considered by many locals to cause unacceptable levels of nuisance and disturbance to normal residential living. Within Europe this is most evident in Barcelona where it is now a very major political issue, best illustrated by posters in the streets informing tourists that they are, in effect, actively destroying what they have come to see. Similar posters and activist campaigns exist in Amsterdam, Berlin and Paris, each of which has witnessed major Airbnb growth.

The growth in short term lets have generated no end of well-publicised news stories about the noise and on occasions the chaos generated by their part in accommodating out of control 'stag and hen' parties, pop-up brothels and noisy all-night partying all of which are seen to denigrate the quality of life for many historic central neighbourhoods, whether in Amsterdam, Budapest, Warsaw or Prague. Perhaps a more extreme example of this arose in Barcelona, where riots ensued in the summer of 2014 in the Barceloneta district, an old beachfront neighbourhood, after a group of naked men renting short-let accommodation tried to buy beer in a local shop. Local urban social movements used this example to denounce the negative impacts of short-let holiday rentals within the central areas of the city (Sans and Dominguez, 2014).

American news reports raise similar concerns, and ask the basic question why should residents in condominiums, co-operatives or apartment buildings within popular inner-city neighbourhoods of New York or San Francisco find themselves overnight living next door to what in effect is a pop-up hotel? Is that not, they ask, why most cities have set down clear zoning (planning) restrictions?

In many US legal jurisdictions, short-lets are deemed illegal under local zoning codes. In San Francisco, for example, the birthplace of Airbnb, unlicensed rentals of fewer than 30 days are now deemed illegal under San Francisco Administrative Code 41, passed in 2013. New York City recently enacted an almost identical law, with the proviso that such rentals are permitted only if the 'host' remains present.

Paris, which witnessed Europe's largest growth in short-let accommodation, partly encouraged by the city's popularity with American tourists, a similar stringent law, which prohibits all rentals of less than one full year. Short-term letting of private houses became widespread within Barcelona, since hosting the Olympics. It has since become a core European tourist destination for a short city break. This rapid transformation brought with it serious concerns about tourist overcrowding, loss of amenity as well as protests from urban social movements calling for stronger regulation. In response, the authorities in what is Spain's second most populous city, followed the approach adopted by Paris when they levied heavy fines against Airbnb (€24,000) for what were found to be 'serious' breaches of local laws (Kassam, 2014). The city has developed district specific planning arrangements within a broader urban plan that seek to manage and control the growth of different types of commercial activity within what are defined as largely residential areas (see Barcelona section in appendix). These violations stemmed from hosts failing to register rental units with the Tourism Registry of Catalonia, and because they also attempted to circumvent regional laws that explicitly prohibit renting out rooms within private residences.

Airbnb requires hosts to comply with local laws through its Terms of Service which hosts are required to sign. A Barcelona Court, however, found against Airbnb, and concluded that by their actions, they openly flouted the current hospitality and urban regulatory framework (Sans and Dominguez, 2014). Now as short-let and Airbnb becomes well established in many other cities, the authorities are now grappling with the implications of this new phenomenon. Edinburgh has made steps in this direction through making some use of the provisions available under the Anti-social Behaviour etc. (Scotland) Act, 2004, part 3, designed to cover unacceptable behaviour in rented property, and the Council's planning committee considered a full analysis of the growth of the Airbnb in the city in March 2017. Glasgow City Council has defined short stay accommodation in its Part 3 Development Policies Res 3 as 'Residential flats used as quasi hotel accommodation, where periods of occupation are generally less than 90 days'. It states that planning permission will not be granted for a change of use to short stay serviced apartment, within existing blocks of residential flats, resulting in mixed use.

### 3.7 National and local fiscal concerns

Airbnb's popularity is based on the fact that renting a room, or even a home, has historically been cheaper than staying in a hotel. A recent study found that renting an entire home on Airbnb costs less than a single hotel room in the 20 biggest US markets listed on their site. On average, the daily rate for an Airbnb house rental was \$160.47 compared to \$163.90 for a hotel room (Griswold, 2016). Part of the differential between letting residential property through Airbnb and similar platforms is the difference in taxes.

Analysis by the *Financial Times* has revealed that commercial properties in London require to charge as much as \$41.30 in additional taxes, including value-added and property taxes, while the average Airbnb stay includes just \$8.40 a night in taxes (Holder, 2017). Hosts on Airbnb also enjoy tax allowances in the UK (Heron, 2016). In the 2016 Budget the UK Government offered what is termed a 'sharing economy allowance', allowing an annual £1,000 tax break for such lettings, and an identical break for those selling on eBay thus ensuring a "tax break for the digital age [that] half a million people will benefit." (Osbourne, 2016). However, in the Spring Budget 2017, the UK Government stated that it will consult

on the rent-a-room relief to ensure it is better targeted to support longer term lettings – to align the relief more closely with its intended purpose to increase supply of affordable long term lettings (GOV.UK, 2017a).

Hotels including the large corporate chains pay tax in the UK, whereas Airbnb's European operation are domiciled in Ireland where the normal corporate tax rate is 12.5%, significantly less than the UK rate. Further, a big hotel pays 20% VAT per stay, whereas Airbnb's VAT regime is levied on service fees alone, rather than the full amount so typically about 3% of total payment. Margaret Hodge MP, the previous chairman of the Public Accounts Committee, called for a closer examination of the tax implications arising out for the sharing economy.

There is also a widespread view that active avoidance is a major issue for hosts with some believing that about 70% of people on Airbnb just do not pay any tax on this income (Bennett, 2016). While some jurisdictions such as the Netherlands are active in collecting such taxes, the Greeks, Spanish, Italians and Portuguese consider it too big to control.

The scale of tax avoidance was also highlighted in New York City where the State Attorney General found that 75% of all the city's rentals, over a four-year period, were illegal, resulting in participating property owners evading millions of dollars in annual hotel taxes.

Amsterdam has voiced similar concerns about the scale of tax avoidance, especially tourism taxes for which the city is responsible. Amsterdam, a relatively small city with a restricted tax base is also a highly popular tourist destination, which brings with it additional costs for the municipality. Hence it has long sought to maximise its tourist tax income, which is levied via overnight stays in both hotels and hostels. Unregulated tourist lets were seen to be impacting on that income. This helps explain the city's enthusiasm for their co-operative arrangement with Airbnb part of which ensures these taxes are collected by Airbnb and paid direct to the city (van Dallon, 2014). It would also appear that in other places where there is not a financial driver, such as the loss of tourist tax income, there is less of an incentive to try and partner or try to actively manage short-lets. Both London and Edinburgh fall into this box. In the UK, there is evidence that taxation can be used as a lever to encourage or disincentivise properties being let as short term lets (supported by consultation discussed in section 4 below). As discussed in 2.2 above, there are different tax regimes according to residential and commercial properties. The UK Government determines wider taxation policy, whereas Scottish Government has devolved powers over regulating the private rented sector, but not wider taxation.

In light of these widespread and universal financial concerns the European Commission has funded a number of studies to help develop a common response to taxing this new entity and thus ensuring fair competition within the market (see Ranchordas *et al*, 2016; Smorto, 2016; Vaughan and Daverio, 2016).

The following section presents secondary data analysis of the short stay market.

## 4. Supply of short stay accommodation in Scotland

### 4.1 Types and volume of short stay accommodation

This section explores the supply of short let accommodation within Scotland through review of published data from a range of sources including Visit Scotland, The Association of Scottish Self Caterers, analysis by LJ Research, and then more detailed examination of data supplied through AirDNA<sup>1</sup> on Airbnb usage over the last three years.

There are number of types of short lets across traditional and emerging models including hotels, traditional B&Bs, agency and owner managed short lets including self-catering and serviced accommodation, and platform based peer to peer short lets. There is also bedroom only short lets either on the basis of longer term 'rent a room' where owners let a spare room to lodgers for relatively long periods, or on short term basis in periods of peak demand. As discussed above, there is no single definition of a short let in Scotland.

It therefore follows, there is no single or official source of data on the supply of short lets in Scotland. This is because of the diverse nature of this sector, some of which is 'formal' commercial visitor accommodation (hotels, B&Bs, self-catering and serviced accommodation) recorded on the Scottish Assessor's Valuation Rolls, but much of which is not formally recorded, particularly those where owners are sharing part of their home, or where owners are not registering the use of their property for commercial use. Looking at the Scottish Assessors rolls for the whole of Scotland at 1<sup>st</sup> April 2017, we see 5,469 Hotels etc. (defined as hotels, guest houses, B&Bs and self-catering) and 22,296 Leisure, Entertainment, Caravans and Holiday Sites (which includes self-catering and holiday lodges in that definition). Further work is required to establish the exact number of commercial visitor accommodation as reported on the Assessors' rolls.

The Association of Scotland's self-caterers reports in its Economic Impact study (Frontline, 2017) that there is a total of 16,162 self-catering or short term rental properties in Scotland as shown on the Scottish Assessors Valuation Rolls at April 2015, with the top five Visit Scotland regions being Highlands, The Kingdom of Fife, Edinburgh and The Lothians, Argyll & The Isles, and Perthshire. The research involved detailed scrutiny of the Assessors' rolls under the various definitions listed above to determine their final conclusion on the scale of the sector.

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<sup>1</sup> Data has been procured from [AirDNA](https://www.airdna.co/services/datafeed). AirDNA data provides a level of granularity, area coverage and currency that isn't matched by some of the non-commercial open data sources. <https://www.airdna.co/services/datafeed>

± Table 2.1: Self-catering properties by VisitScotland region

VisitScotland region	No. of properties
The Highlands	3,982
The Kingdom of Fife	2,356
Edinburgh & The Lothians	2,045
Argyll & The Isles	1,584
Perthshire	1,568
Scottish Borders	1,433
Dumfries & Galloway	964
Loch Lomond, Trossachs, Stirling and Forth Valley	746
Greater Glasgow & The Clyde Valley	394
Outer Hebrides	293
Ayrshire & Arran	268
Aberdeen City and Shire	260
Shetland	117
Dundee & Angus	101
Orkney	50

Source: Frontline 2017

The difficulty of identification and reporting commercial visitor accommodation and the emerging sector is highlighted in a recent report by the City of Edinburgh Council (2017). This identified 6,273 properties in Edinburgh listed through Airbnb from January 2012 to July 2016. Of these, 3,432 (54.7%) were for entire properties, of which 2,043 (59.5%) were available for over 90 days a year. This 2,043 is compared to the closest equivalent from the Assessor's Valuation Roll which shows 1,543 commercial visitor accommodation. By comparison, the Indigo House analysis below shows 2,851 entire home Airbnb listings in Edinburgh in 2016 alone.

In terms of traditional B&B accommodation, searching on Visit Scotland's website in March 2017 reveals current listing of 2,114 B&Bs, but clearly not all will advertise on this site, others will use other web platforms, their own websites, or other forms of advertisement. There is no one source of data recording the number of traditional B&Bs in Scotland, unless line by line scrutiny of the Assessors' rolls are undertaken to find commercially listed B&Bs.

When we consider the number of listings on Airbnb, ignoring any other platforms used for short lets, this demonstrates the huge disparity between the short lets / B&Bs recorded in the Valuation Roll and the emerging market which are now listed through web platforms – using the Edinburgh example above, a disparity of anything up to approximately 90% between 'formal' and 'informal' short lets depending on the year of examination and source of data.

LJ Research (2017) provides analysis of bedroom hotel space in Scotland. It states that in January 2017 that occupancy rates have increased for Scotland overall and were the highest in Edinburgh, where hoteliers sold 82.3% of their hotel rooms. This was 2.4 percentage points higher than in December 2015. Complementing this positive occupancy growth is a 20.7% increase in room rates which resulted in an Average Room Rate (ARR) of £113.48. This was the 13<sup>th</sup> consecutive month of rate growth within Edinburgh. The trend of future bookings also shows positive signs for Edinburgh hoteliers as forward bookings for each of the next 6 months were all above last year's levels. Glasgow's hoteliers achieved

the highest year-on-year occupancy increase of all three cities, selling 74.5% of their room stock in December 2016. This marked a 4.5% increase from last year.

According to the latest Visit Scotland occupancy survey (2015), occupancy rates for Guest Houses and B&Bs are much lower than hotels at an average annual rate of 40% and high season rate of 54% albeit this is an increase on previous years. Interestingly, occupancy rate increases are most significantly for higher priced B&Bs in the £50-59.99 bed range. Occupancy rates for self catering have risen from previous years to an annual average of 48%, and peak in the summer of 80%, with properties in cities and large towns having the highest occupancy rates. The survey also showed that annual average unit occupancy rates for agent-let properties increased in 2015 against 2014, with independently let short lets unit occupancy rates decreasing in 2015. The Frontline (2017) ASSC report suggests a higher occupancy rate in 2016, compared to the Visit Scotland 2015 survey. The ASSC report shows occupancy averaging 57%, ranging from 100% on 20 occasions to 14% in the winter months – confirming the fluctuating nature of the holiday let market.

LJ research also undertakes two continuous visitor surveys in Edinburgh and Glasgow. The online surveys have been ongoing for over 10 years utilising a consistent and robust methodology to enable an assessment of changes in visitor behaviour and perceptions of Scotland's two largest cities. Since 2014 the surveys have tracked the incidence of Airbnb usage in the two cities. The latest results based on feedback from c. 1,000 staying visitors per city each year shows growth in the use of Airbnb by visitors who stay at least one night in the cities. In Glasgow, usage of Airbnb has increased from 1% in 2014 and 3% in 2015 to 5% in 2016. In Edinburgh, a similar trend is apparent and there is evidence of greater use of Airbnb as the results were 4%, 6% and 9% for 2014, 2015 and 2016, respectively.

In conclusion, accurate data on the supply of the short-let is not readily available, but there are indications across several measures which suggest that demand and supply is increasing, shown by increasing occupancy rates, increasing prices in parts of the traditional sector, and increasing supply.

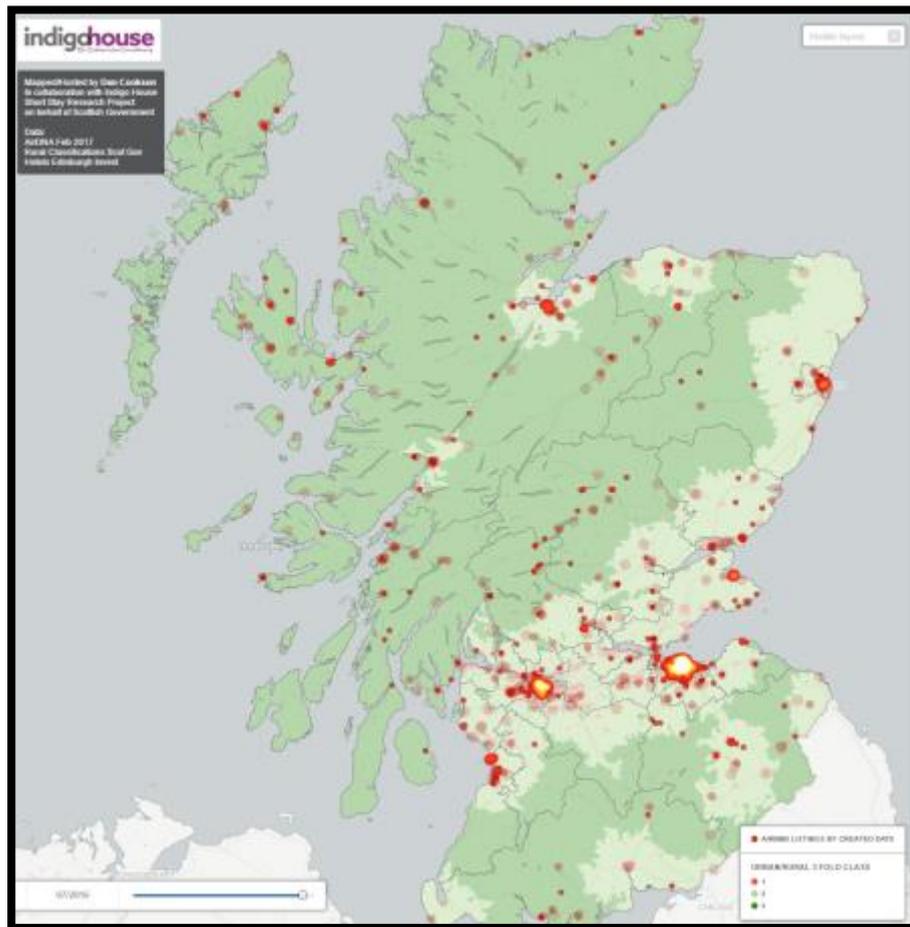
## 4.2 Analysis of Airbnb supply

### 4.2.1 Distribution across Scotland

The following analysis of Airbnb listings between January 2013 and January 2017 is based on data sourced from AirDNA<sup>2</sup>. It should be noted that the extent of the platform market extends beyond Airbnb and there are several other platforms in this market as discussed above. There will also be duplication between platforms with many individuals and commercial operations using multiple platforms to advertise their short-let property. However, we know that Airbnb is the key player in this market and so it provides a fair representation of the trends in the emerging market.

Map 1 below shows Airbnb listings at July 2016 overlaid on Scottish Government's three fold urban/rural classification. This emphasises the concentration of listings in Edinburgh, Glasgow, Aberdeen, the Highland tourist hot spots, and along the key tourist locations around the coast in Fife. The map's link goes to a fully interactive Web based map which shows the growing supply of Airbnb listings over time. Several other layers of information can be selected from the Visible Layers menu at the top right of the map.

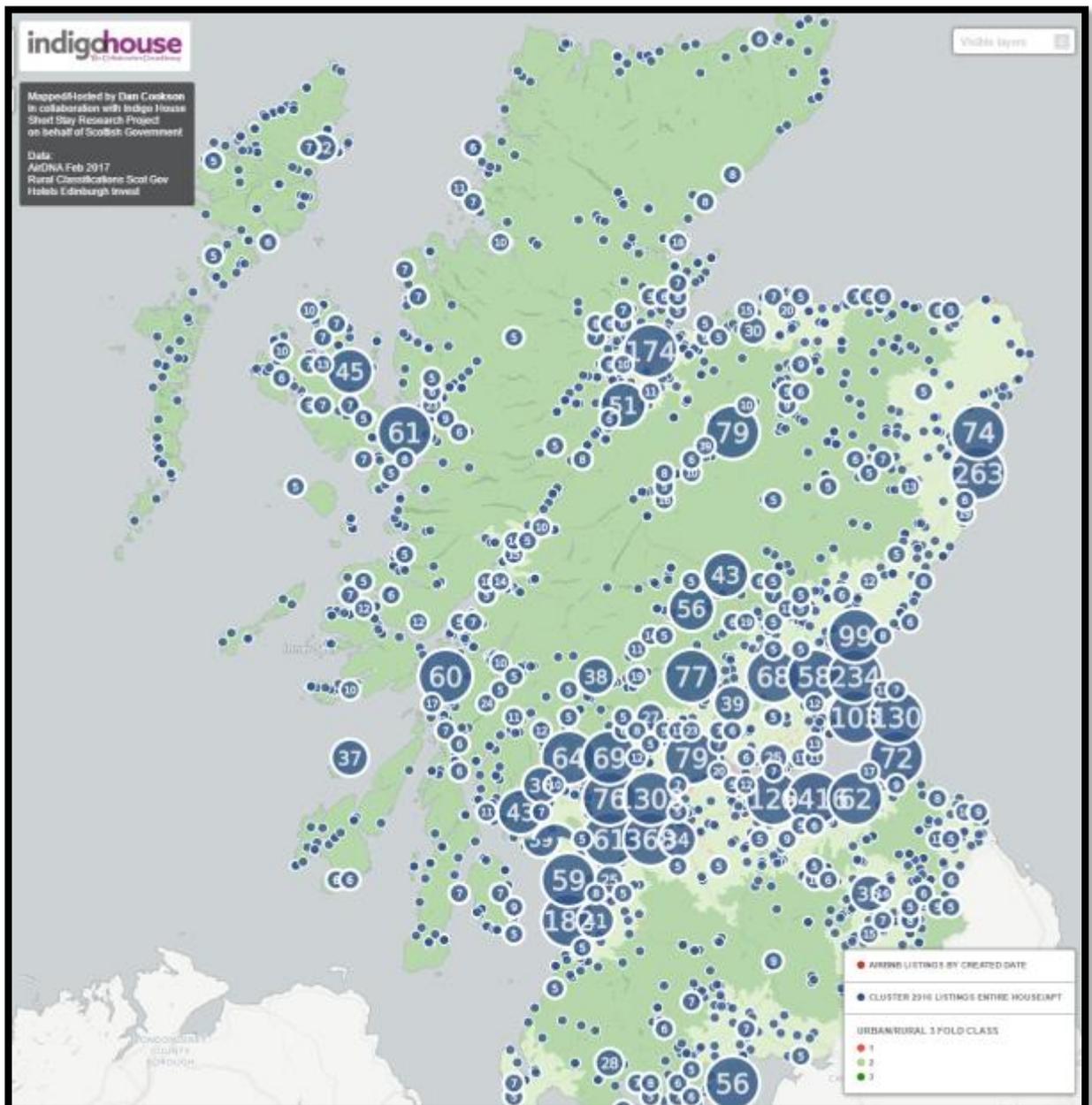
**Map 1 Heat Map of Airbnb Listings at July 2016** [Link to Map](#)



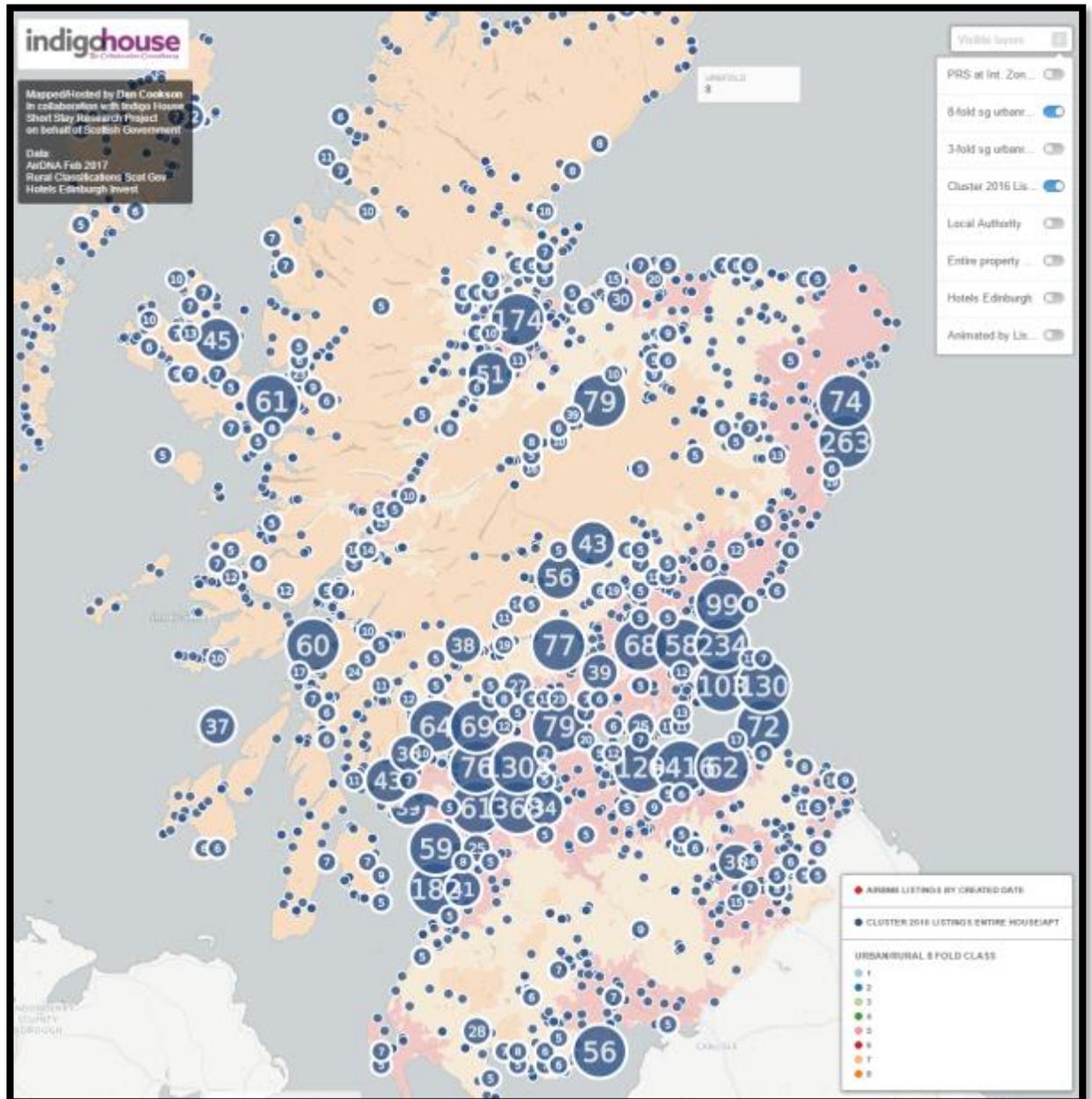
<sup>2</sup> <https://www.airdna.co/research>

Map 2 below shows clusters of those new Airbnb listings in 2016 that had a listing type defined as entire home/apartment. This highlights the wide distribution of listings across the whole of Scotland but also shows that the largest concentrations appear in urban centres, and in key tourist hot spots. Map 3 shows the same data overlaid on an 8 fold urban/rural classification. To view the clusters select the link below and chose Cluster 2016 from the Visible Layers menu at top right of interactive map

**Map 2 Cluster Map of New Airbnb Listings by entire home/apt in 2016 - urban/rural classification** [Link to Map](#)

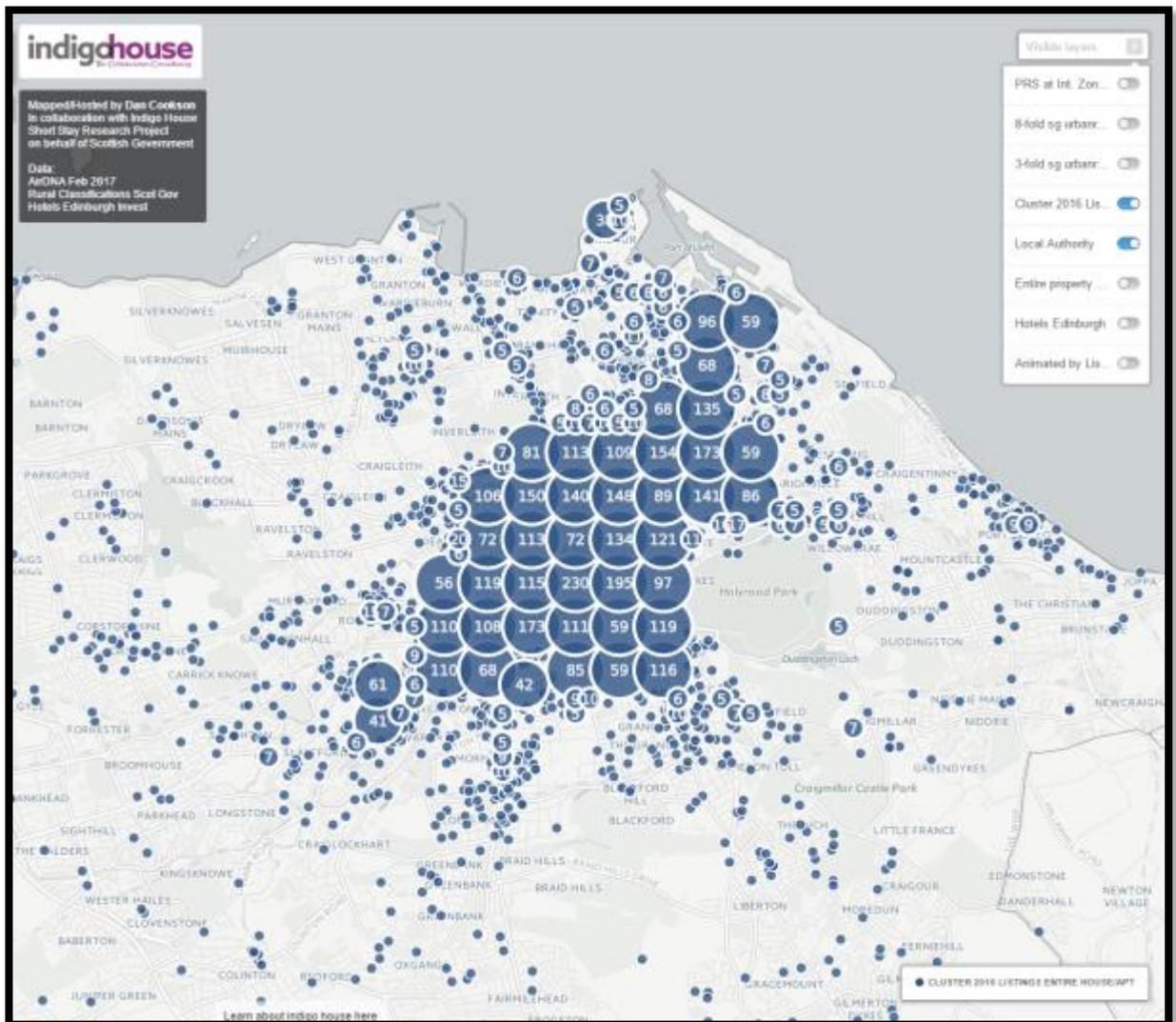


Map 3 Cluster Map of New Airbnb Listings (entire home/apt) in 2016 on an 8 fold urban/rural classification [Link to Map](#)



**Map 4 Edinburgh Cluster Map of New Airbnb Listings (entire home/apt) in 2016** [Link to Map](#)

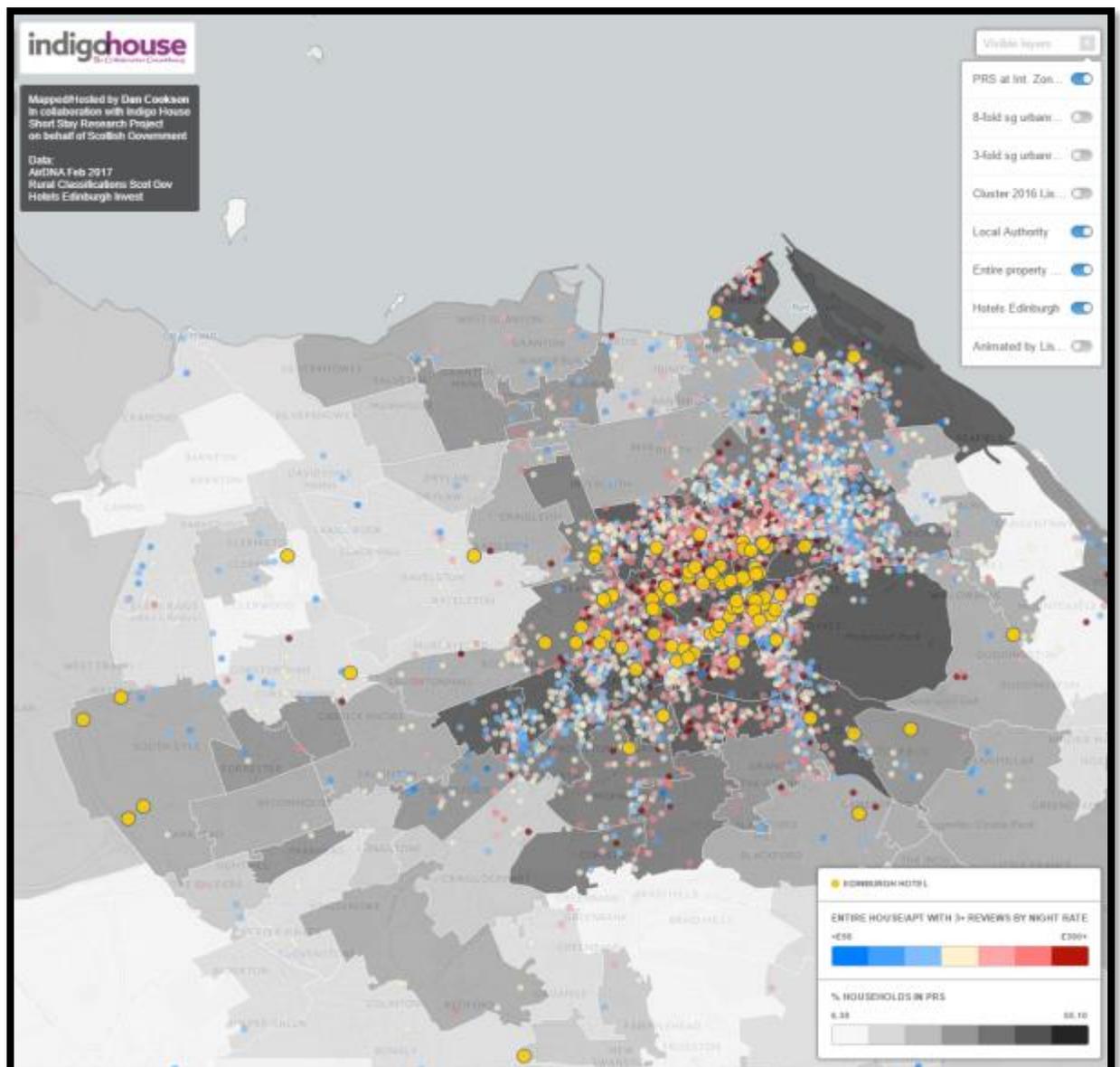
Zooming into Edinburgh it can be seen where new Airbnb listings have been appearing which are very much weighted to the city centre (New Town, Old Town) and Leith walk and the Western Harbour.



**Map 5 Edinburgh Map of New Airbnb Listings (entire home/apt) overlaid on % Households in PRS and Hotels** [Link to Map](#)

Map 5 shows the high correlation between the number of Airbnb listings in a neighbourhood (blue to red dots) and the number of households that live within the Private Rented Sector (PRS, grey shading). It also highlights that some of the most expensive Airbnb listings in the capital are in the prime central locations which is also where the hotels are located.

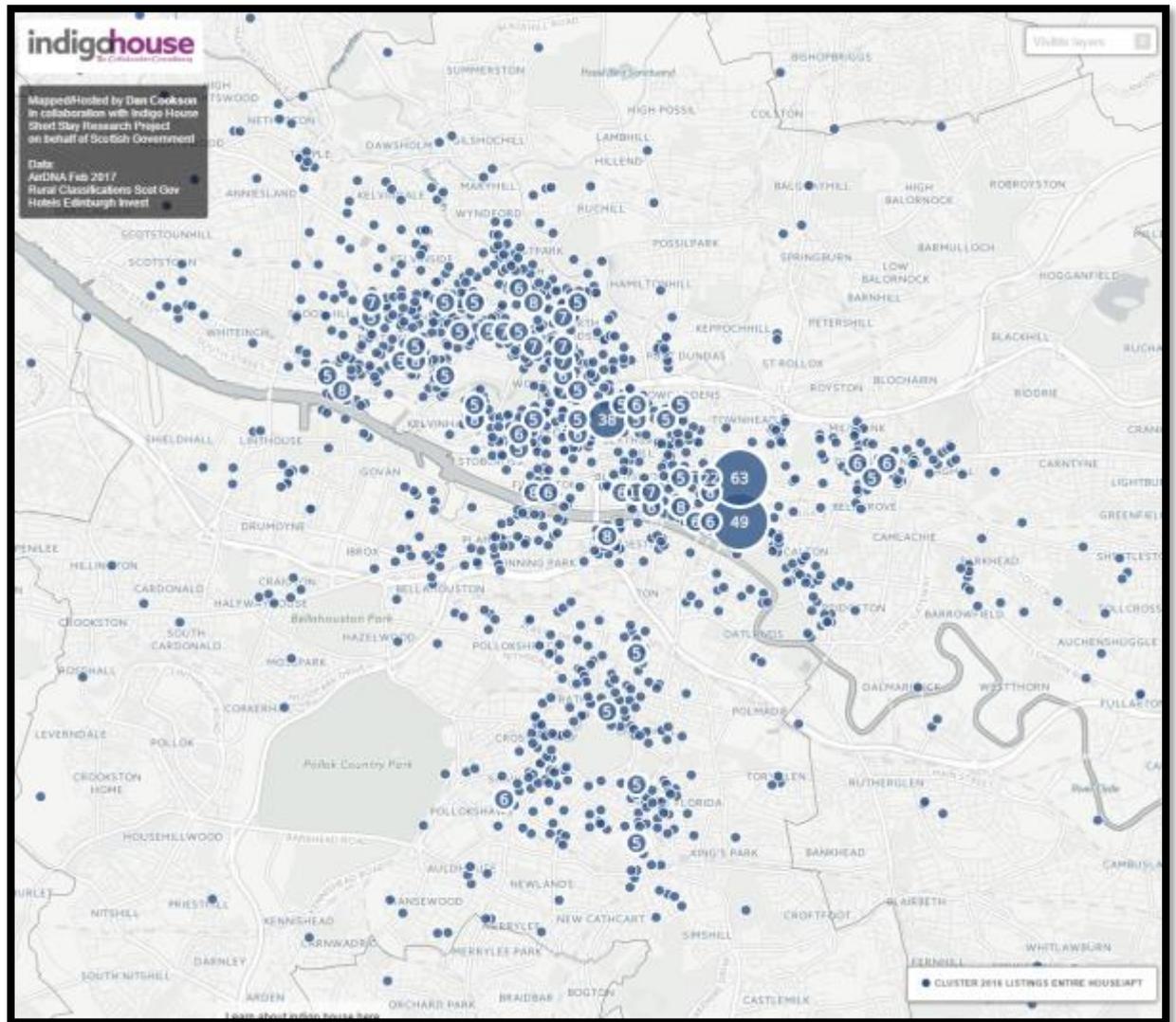
By clicking on the dots representing the individual Airbnb listings on the interactive map (see link above) information is revealed such as photo, typical night rate, bedroom count, created date, listing title and the number of reviews. This provides a useful guide to the range and quality of the accommodation on offer.



## Map 6 Glasgow Cluster Map of New Airbnb Listings (entire home/apt) in 2016

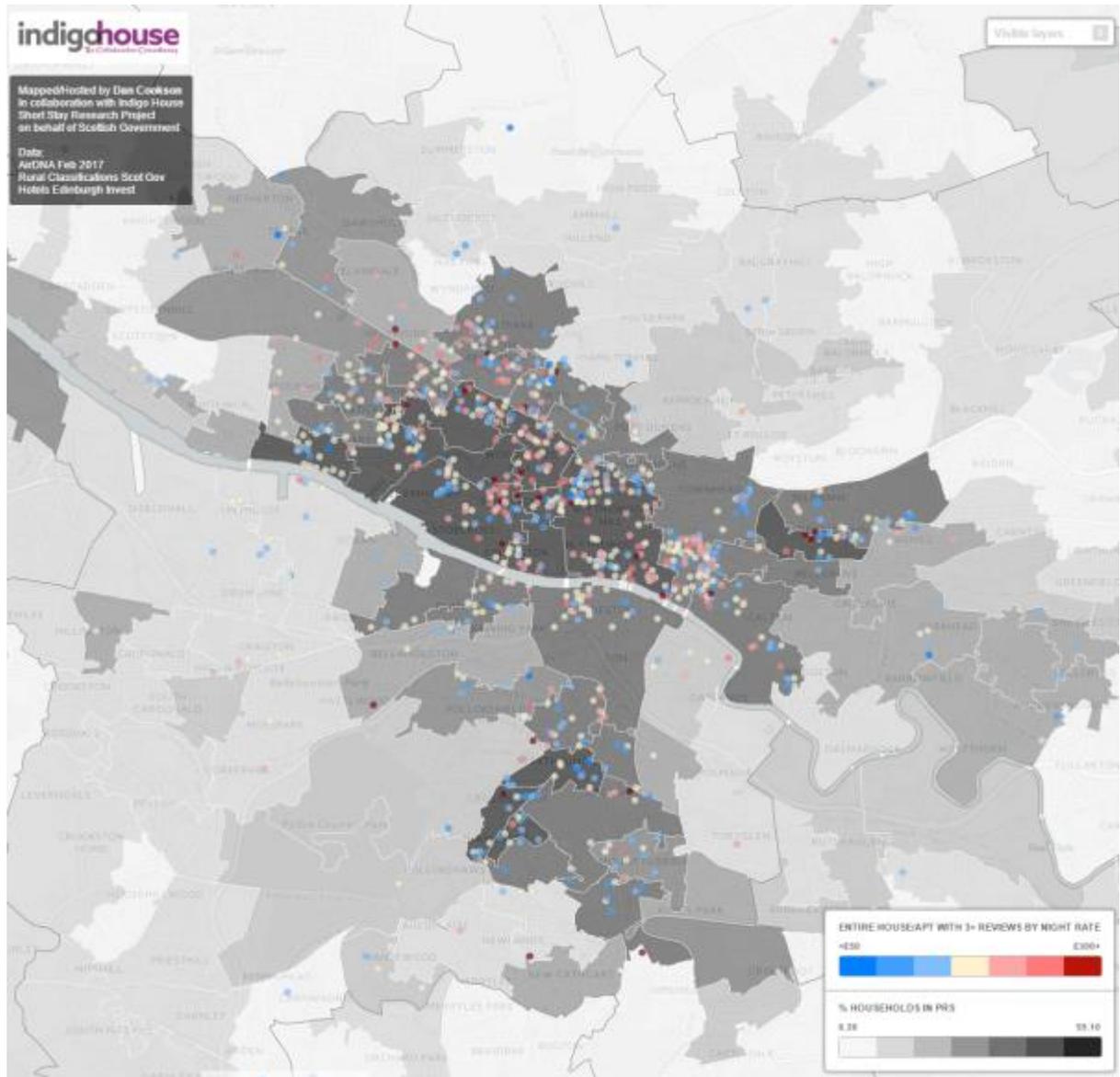
[Link to Map](#)

The map of recent Airbnb listings in Glasgow shows that the most dense concentration is in the Merchant City.



## Map 7 Glasgow Map of Airbnb Listings (entire home/apt) overlaid on % Households in PRS [Link to Map](#)

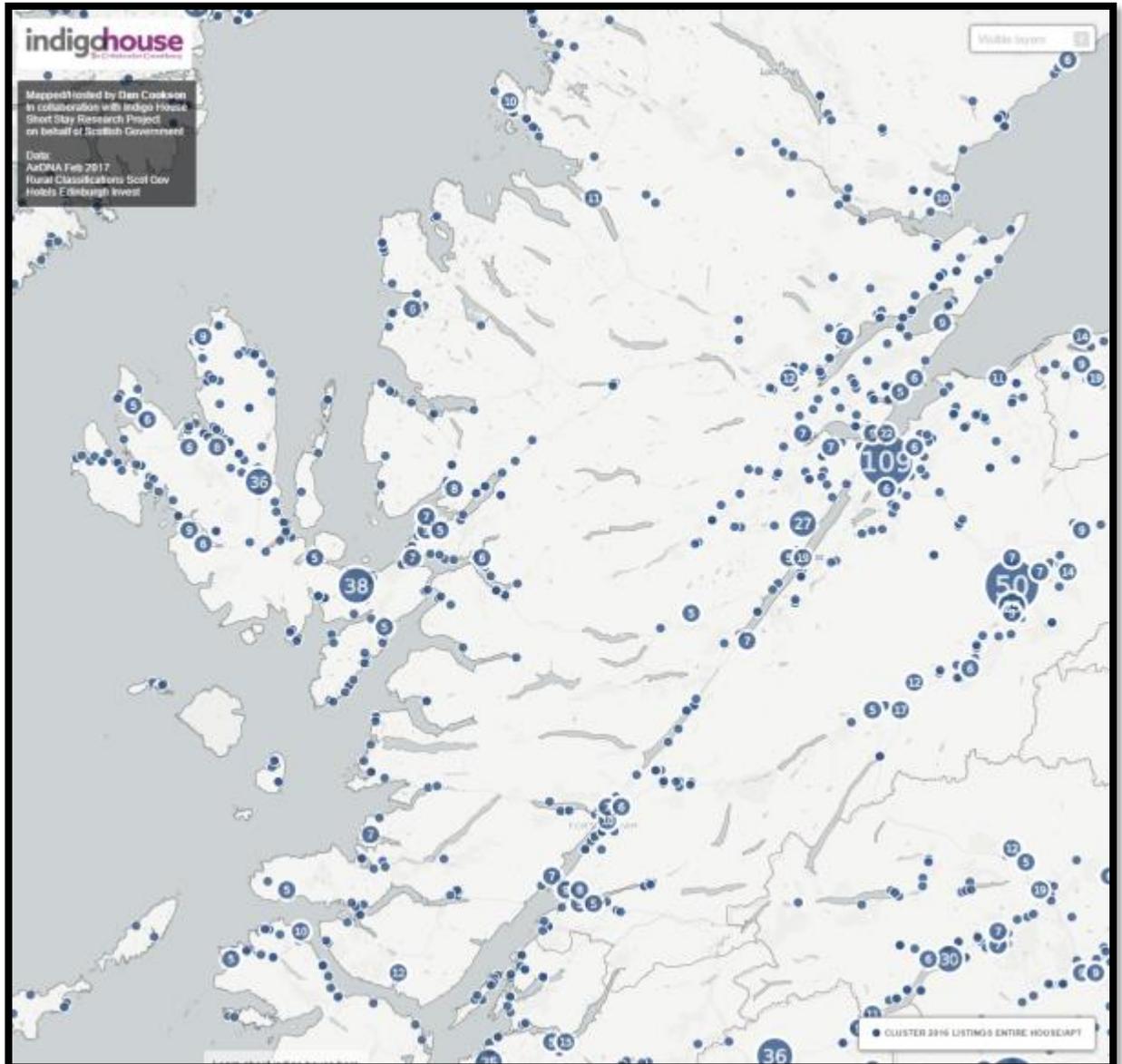
As with Edinburgh, this map shows the high correlation between the number of Airbnb listings by neighbourhood, and the number of households that live within the PRS.



## Map 8 Highland Cluster Map of New Airbnb Listings (entire home/apt) in 2016

[Link to Map](#)

The map of recent Airbnb listings across the Highlands shows high concentrations in Aviemore, Inverness and Skye as well as a widely-dispersed selection of accommodation especially along the coasts, lochs and other tourist hotspots.



#### 4.2.2 Total Available Airbnb listings

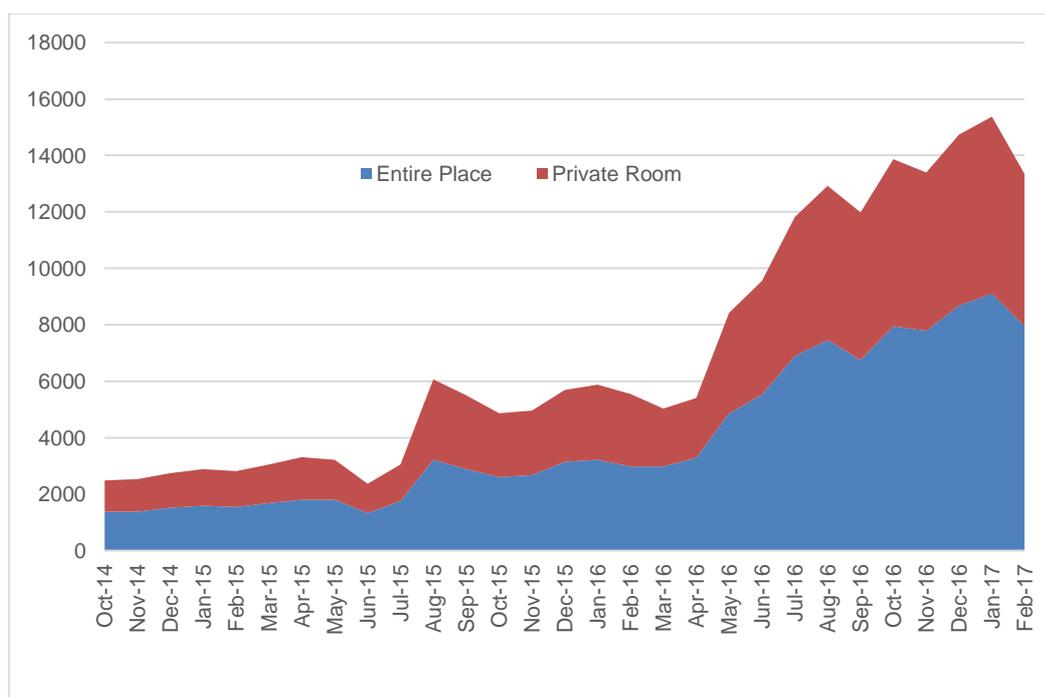
Table 1 below shows the change in total available listings on Airbnb in Scotland and in three key Airbnb markets where there have been the most significant volume increases of listings between January 2016 and 2017. It also shows the relative change in volumes of listing by private rooms and entire homes, with entire homes increasing at a greater rate.

Chart 1 shows total available listings for Scotland for a longer period between 2015 and 2017, and Chart 2 for Edinburgh. When considering the increasing volumes of Airbnb it should be noted that not all these listings will be new to the market, although they may be new to Airbnb. As the section of listing property type shows below, there is a proportion of listings which are B&B and Guest Houses where these traditional models are using Airbnb as an advertising platform. This was confirmed in consultation with some agents, some of whom stated that they use this and other platforms to advertise.

**Table 1 –Total Available Airbnb listings January 2016 to January 2017**

	January 2016		January 2017		% change	
	Private room	Entire home	Private room	Entire home	Private room	Entire home
Scotland	2661	3210	6261	9115	135%	184%
Edinburgh	1721	2170	2664	3472	55%	60%
Glasgow	512	536	658	812	29%	51%
Highland	-	-	801	1089	-	-

**Chart 1 – The growth of Airbnb in Scotland - Total available listings 2015-2017**



**Chart 2 – The growth of Airbnb in Edinburgh - Total available listings 2015-2017**

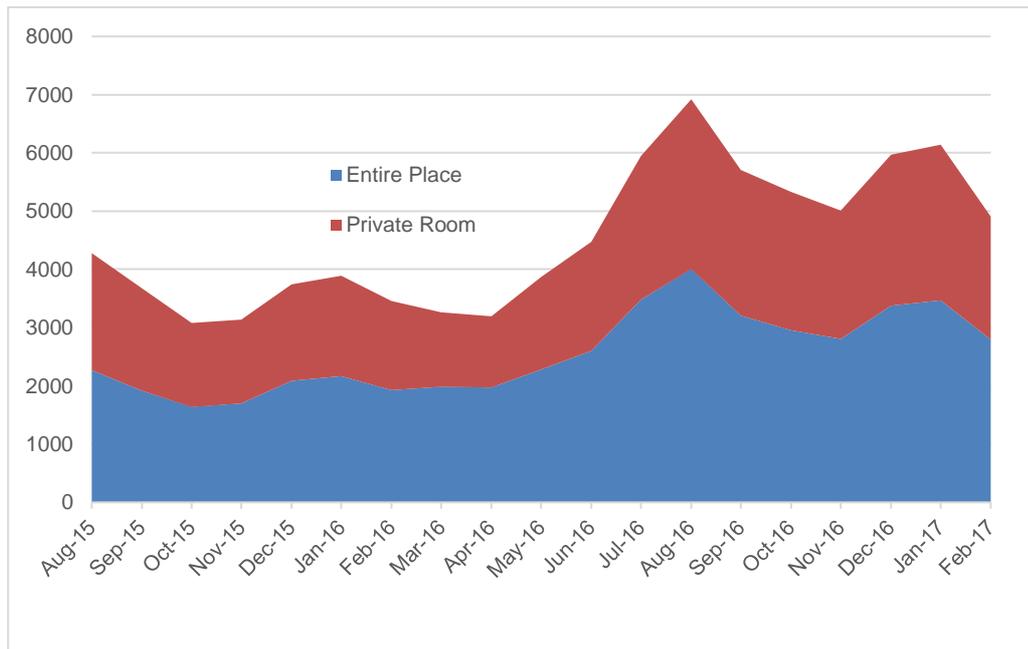
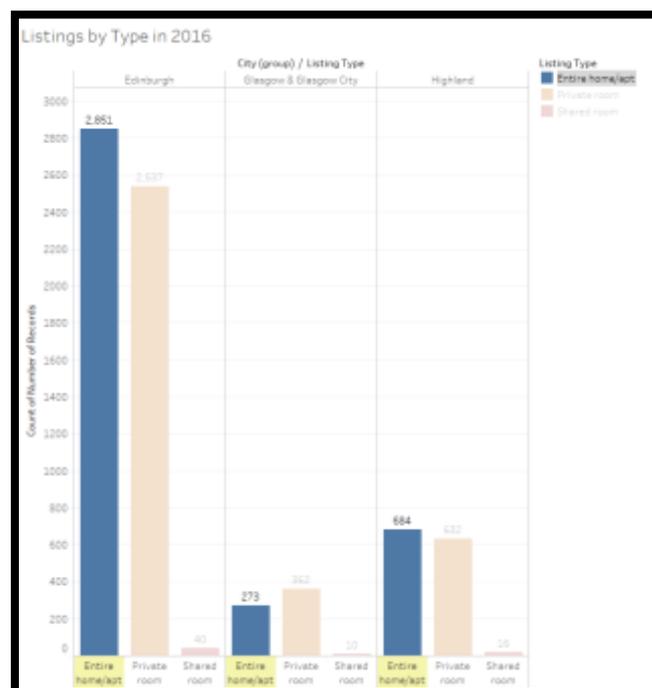


Chart 3 below details the flows of new listings coming on to Airbnb by type (entire home, private room or shared room) over the course of 2016, whereas the figures above show total available listings on a certain date. This shows the sheer dominance of Edinburgh in this market relative to the two next highest local authority areas in terms of new listing volumes. It also shows the different profile by letting type, where Glasgow shows a higher number of private rooms over the whole year compared to greater number of entire homes in Edinburgh and Highland.

**Chart 3 - Listings of Entire home/apt** [Link to Chart](#)



### 4.3 Change in number of new listings

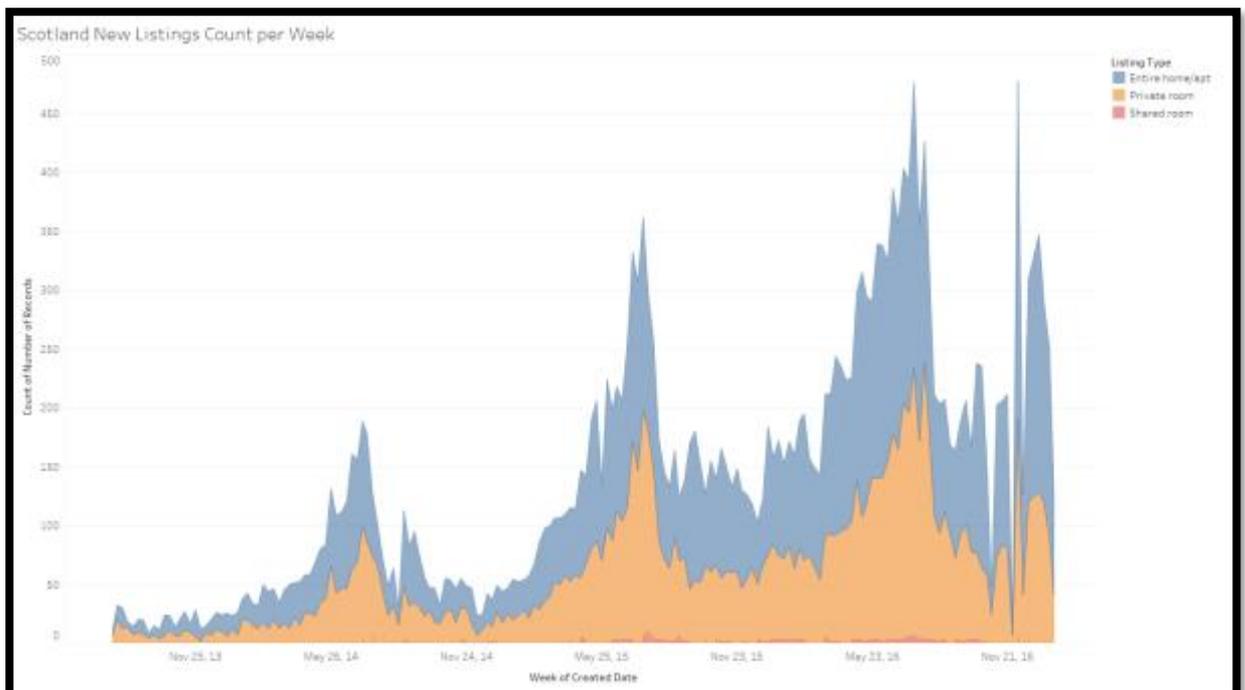
Table 2 and Chart 4 and 5 below shows the dramatic increase in volume of new listings across Scotland and the three largest market areas between 2014 and 2016. Appendix 3 provides data for all local authorities in Scotland. This shows how the listings in Edinburgh dwarf the next two highest local authorities.

Chart 6 shows the change of new listings by all local authorities. It shows the increase in listings around key holiday periods particularly in Edinburgh in the summer months, but also the increasing 'base' volume of listings throughout the year. Edinburgh, and the Festival clearly dominate but the time series analysis also shows the growing importance of Airbnb accommodation during the Christmas and Hogmanay festive periods.

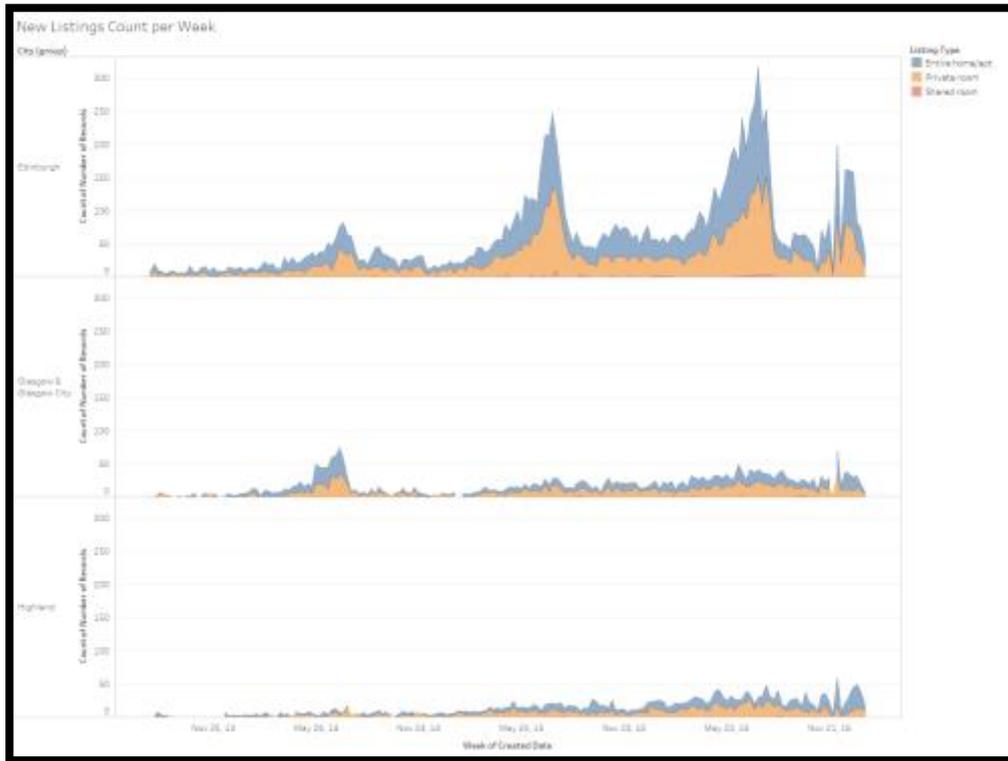
**Table 2 – New Listings Count per Quarter**

	Qtr 4 -14	Qtr 4-16	% change Qtr.4 14 to Qtr.4 16	Qtr 2-14	Qtr 2-16	% change Qtr.2 14 to Qtr.2 16
Scotland	569	2394	321%	1108	3681	232%
Edinburgh	309	890	188%	419	1811	332%
Glasgow	76	323	325%	366	170	-54%
Highland	65	299	360%	43	144	235%

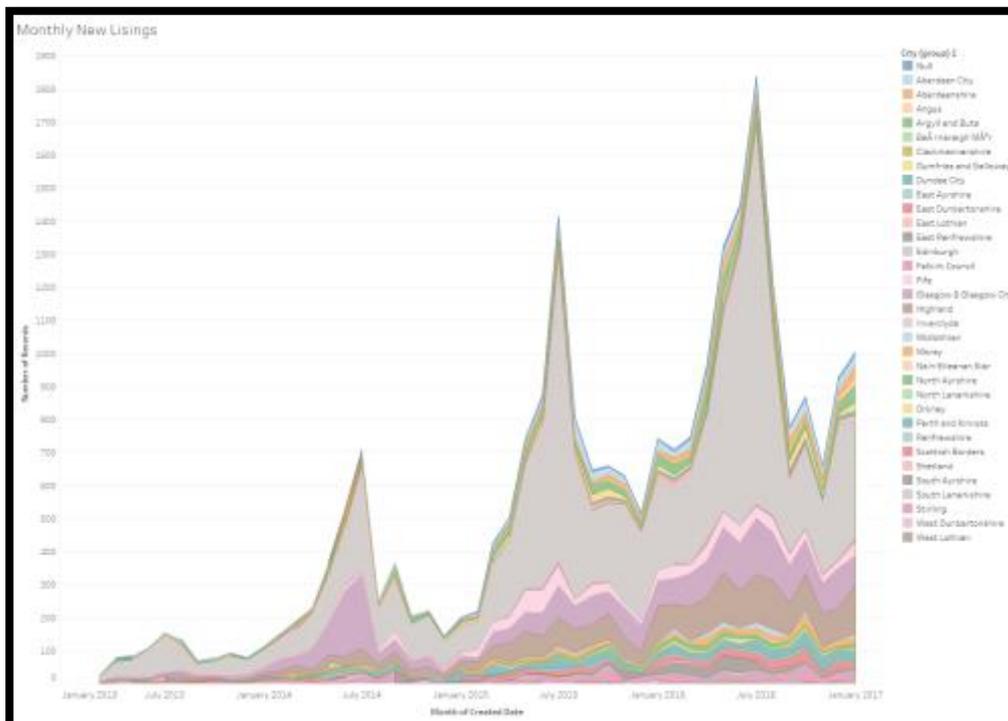
**Chart 4 - New Listings Count per Week, Scotland** [Link to Chart](#)



**Chart 5 - New Listings Count per Week, Edinburgh, Glasgow and Highland** [Link to Chart](#)



**Chart 6 - Monthly New Listings by Local Authority** [Link to Chart](#)



#### 4.4 Impact of housing stock availability

As the maps 5 and 6 above show there is a clear overlap between the location of PRS stock and concentration of Airbnb listings. A recent report on Homesharing in London's Housing Market considered the proportion that Airbnb entire homes represent of London's private housing stock (IPPR, 2016, pg 24). On average Airbnb entire homes take up less than 1% of the stock, although in the City of London and Westminster Airbnb takes up almost 4%. When we consider a similar comparison in Scotland we see that Airbnb entire home listing in February 2017 take up between 0.4% and 1.4% of privately owned, occupied housing stock (Table 2 below) in the three main Airbnb market areas in Scotland. Edinburgh shows an average higher rate than London overall, and further work should be undertaken to analyse concentrations on a neighbourhood basis.

**Table 2 – Comparison of Airbnb entire home listings and private occupied stock in key Airbnb markets in Scotland**

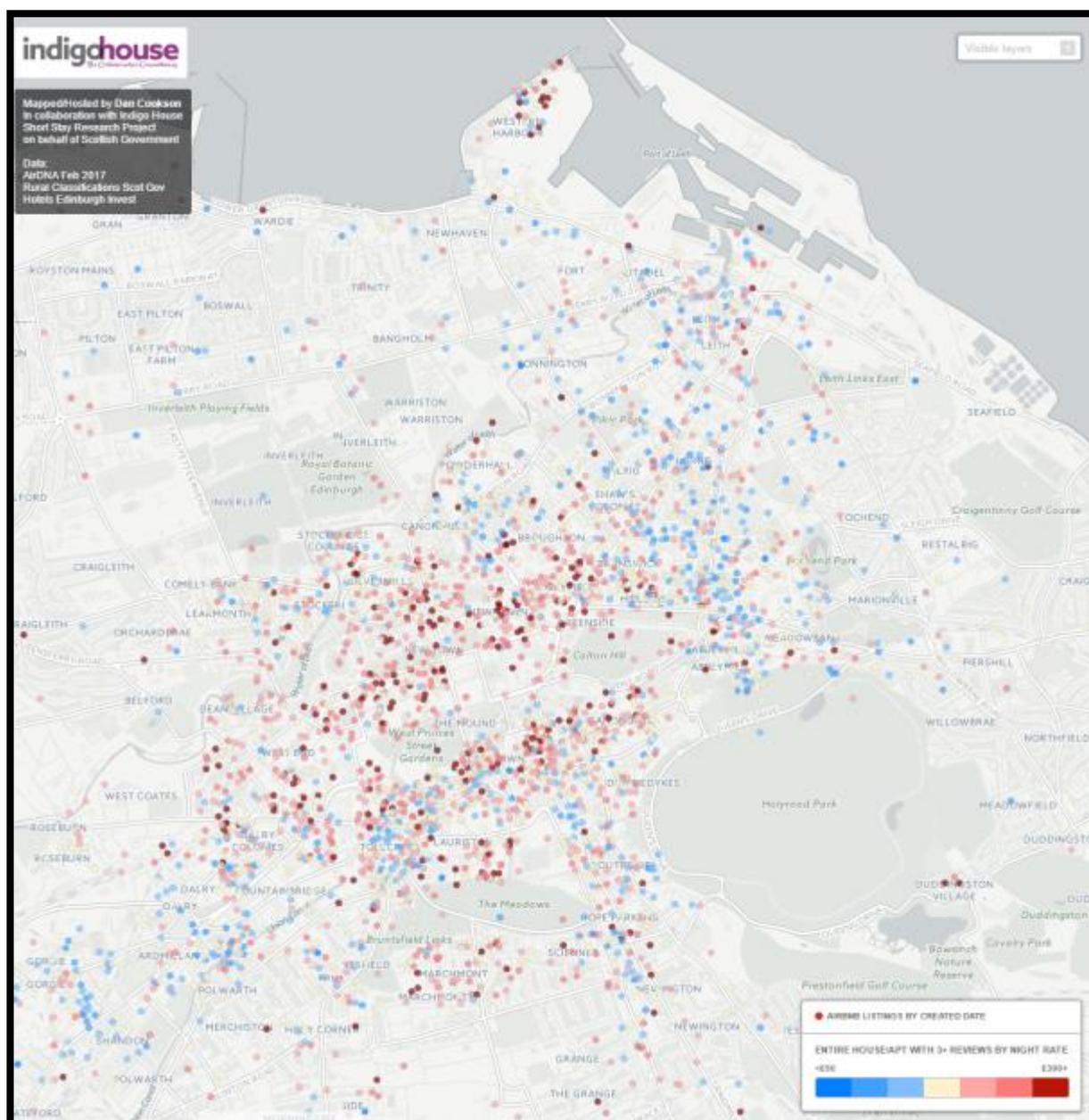
	<b>Airbnb entire home listing 2016</b>	<b>Total private occupied stock</b>	<b>Proportion of Airbnb</b>
<b>Edinburgh</b>	2,798	194000	1.4%
<b>Highland</b>	1,020	88000	1.2%
<b>Glasgow</b>	719	187000	0.4%

Source: Analysis on AirDNA data and Scottish Government Housing statistics estimated Stock of Dwellings 2015

##### 4.4.1 Listings by price

Map 9 below shows an example of the distribution of Airbnb listings since January 2015 by entire property and price. Unsurprisingly in this Edinburgh example we can see the concentration of listings within the city centre, which also correlates to higher prices. There is also a smaller cluster of high priced listings at Western Harbour at the North of the city.

## Map 9 – Entire house / apartment with 3+ review by price per night [Link to Map](#)



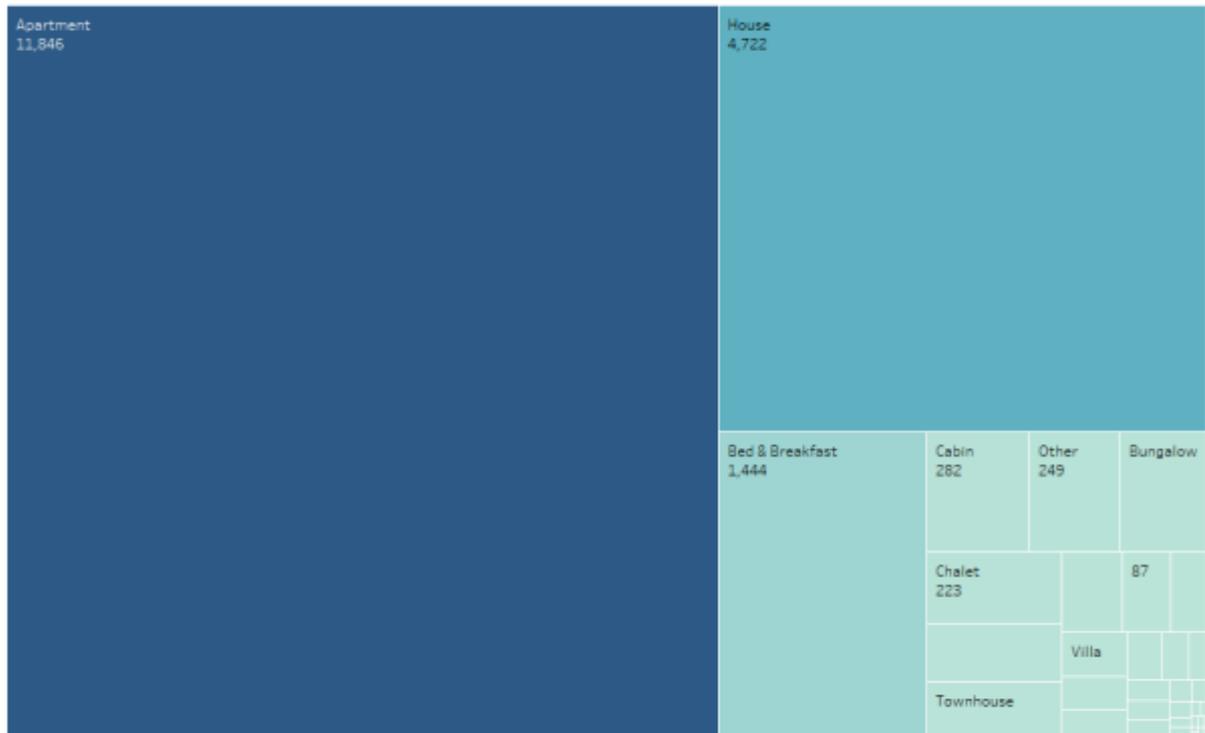
### 4.4.2 Property type

Chart 7, 8 and 9 below shows the total Airbnb listings by property type, by Scotland and Edinburgh and Highland to reveal difference by rural and city environments. The interactive charts can be used to explore the different property profiles of each local authority. This shows us the prevalence of different house types by local authority with Edinburgh dominated by flats (called apartments), but with Highland showing more supply of houses.

This analysis also highlights that traditional forms of short-lets such as Bed and Breakfast and other forms of guest houses are using Airbnb to advertise. During 2015 and 2016 there were well over 1,444 properties defined as Bed & Breakfast accommodation using Airbnb in Scotland, around 1,000 less than on the Visit Scotland website, and it is interesting to note the different scale of advertising B&Bs between Edinburgh (108) and Highland (521).

## Chart 7 – Property Type for Scotland with [Chart link](#)

### Property Types



Property Type and sum of Number of Records. Color shows count of Number of Records. Size shows count of Number of Records. The marks are labeled by Property Type and sum of Number of Records. The data is filtered on Created Date Year and City (group). The Created Date Year filter keeps 2015 and 2016. The City (group) filter keeps 35 of 35 members.

## Chart 8 – Property Type for Edinburgh with [Chart link](#)

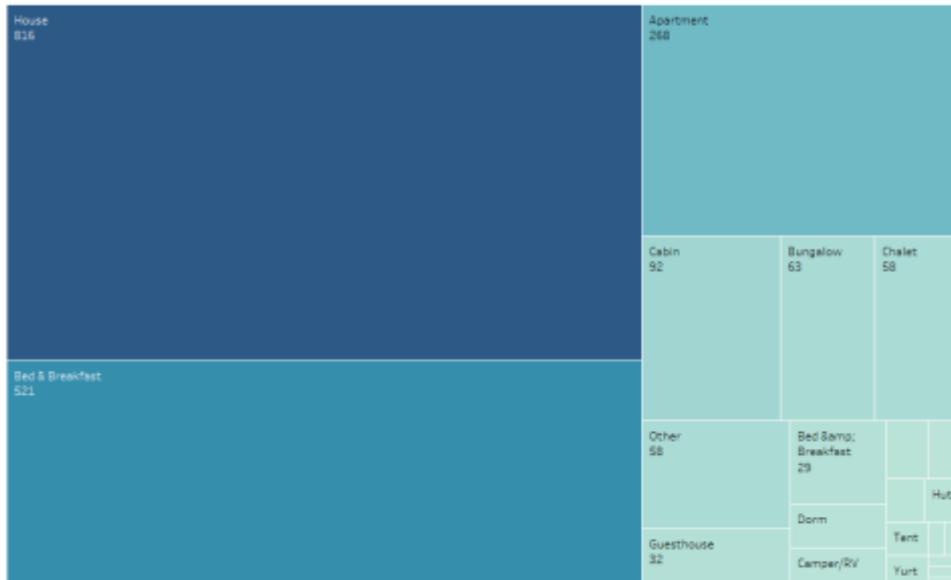
Property Types



Property Type and sum of Number of Records. Color shows count of Number of Records. Size shows count of Number of Records. The marks are labeled by Property Type and sum of Number of Records. The data is filtered on Created Date Year and City (group). The Created Date Year filter keeps 2015 and 2016. The City (group) filter keeps Edinburgh.

## Chart 9 – Property Type for Highland with [Chart link](#)

Property Types



Property Type and sum of Number of Records. Color shows count of Number of Records. Size shows count of Number of Records. The marks are labeled by Property Type and sum of Number of Records. The data is filtered on Created Date Year and City (group). The Created Date Year filter keeps 2015 and 2016. The City (group) filter keeps Highland.

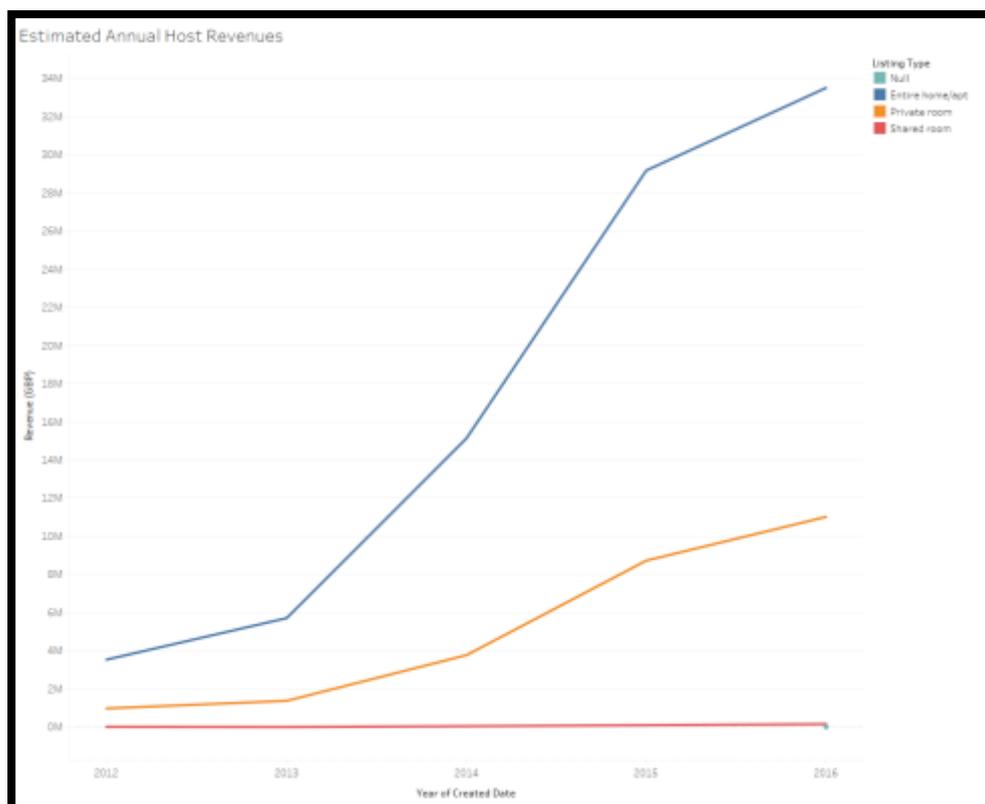
### 4.4.3 Revenues

Table 3 and Chart 10 below show the change in total revenue achieved for hosts through Airbnb lets between 2013 and 2017. Looking at Scotland as a whole, the revenues achieved have increased for private room by 189% and for entire homes by 122%. While the total amounts are lower in Highland, the proportional increases here are greatest at 320% and 222% respectively. Edinburgh clearly shows the greatest revenue for hosts, at a total of £17m for entire homes, compared to £2.9m for the equivalent in Highland. Revenues for other local authorities can be seen using the interactive charts.

**Table 3 – Revenues for Airbnb hosts**

	2014		2016		% change 2014 to 2016	
	Private room	Entire home	Private room	Entire home	Private room	Entire home
Scotland	£3.8m	£15.1m	£11.0m	£33.5m	189%	122%
Edinburgh	£1.8m	£8.8m	£5.5m	£17.0m	206%	93%
Glasgow	£0.7m	£2.3m	£1.0m	£3.2m	43%	39%
Highland	£0.5m	£0.9m	£2.1m	£2.9m	320%	222%

**Chart 10 – Estimated Net Revenues for Airbnb hosts** [Chart Link](#)



The data providers, AirDNA, also provide some estimates of ADR and RevPAR which are key performance metrics in the hotel sector. These are explained below. The tables below also show occupancy performance. This suggests that occupancy levels are similar to that indicated for traditional B&Bs as reported by the Visit Scotland 2015 survey. The average revenue (RevPAR) is indicated at \$66.50 (£53.47) which is again in line with the Visit Scotland findings for traditional B&B prices. Equivalent tables for Edinburgh, Glasgow and Highland are included in the appendices.

**Table 4 Key Market Summary Report Scotland**

<b>Total Available Listings</b>		<b>February 2017</b>
	Entire Place	7947
	Private Room	5410
	Shared Room	99
<b>Booked Listings</b>		
	Entire Place	6171
	Private Room	3325
	Shared Room	71
<b>Room Nights - Entire Place</b>		
	Total Available	325668
	Booked	148425
<b>Room Nights - Hotel Comparable</b>		
	Total Available	50549
	Booked	25905
<b>Listing Nights - Entire Place</b>		
	Available	153974
	Booked	72838
<b>Occupancy</b>		
	Entire Place	47.30%
	Hotel Comparable	51.20%
<b>ADR</b>		
	Entire Place	\$140.58
	Hotel Comparable	\$94.75
<b>RevPAR</b>		
	Entire Place	\$66.50
	Hotel Comparable	\$48.56

**ADR** The average daily rate charged per booked listing. ADR includes cleaning fees but not other Airbnb service fees or taxes.

**RevPAR** Revenue Per Available Room is the total revenue divided by the number of all available entire place listings. Differing from the hotel industry, we consider all separate Entire Place listings as a "room".

#### 4.4.4 Links to key tourist events

Comparing the increases of Airbnb listings with key Scottish tourism events, we can see how the supply of short lets comes on stream to meet the demand from visitors for these major tourism events. The following three charts provide some examples, from Glasgow, St Andrews and Aberdeen with links to interactive maps.

**Chart 11 - Glasgow Commonwealth Games July 2014** [Link to Chart](#)

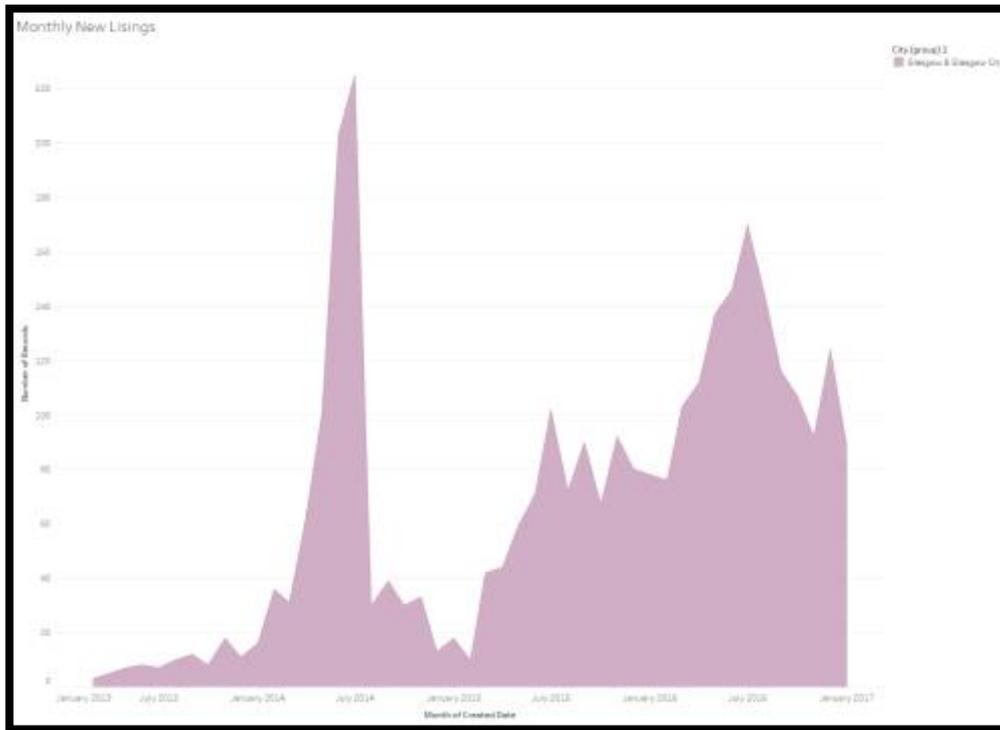


Chart 12 - The Open St. Andrews July 2015 [Link to Chart](#)

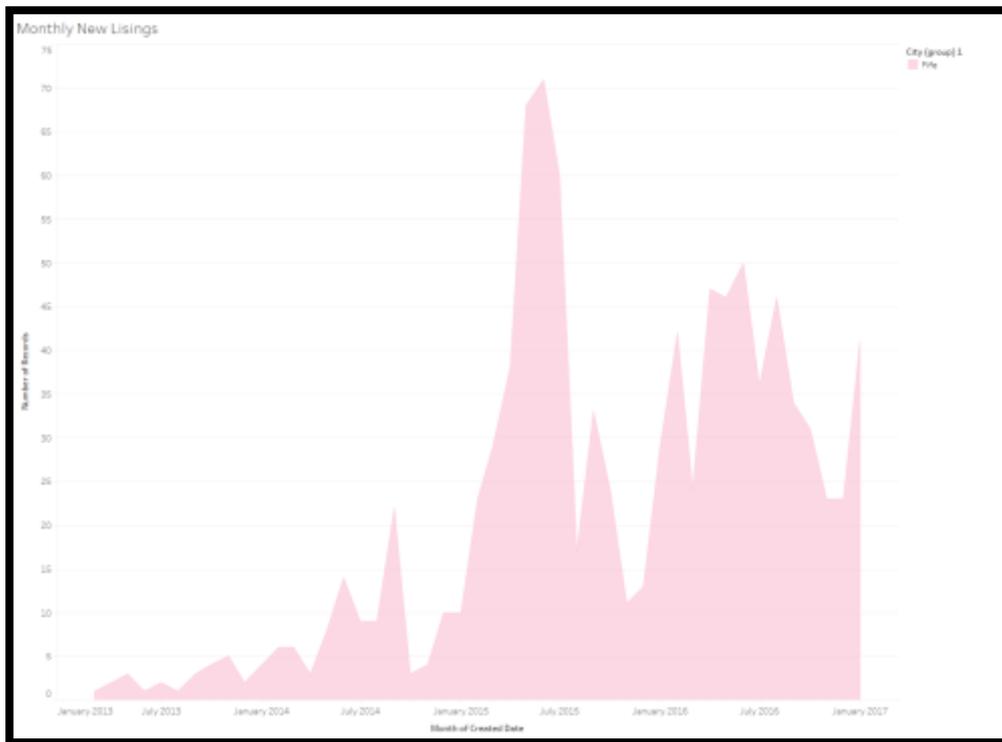
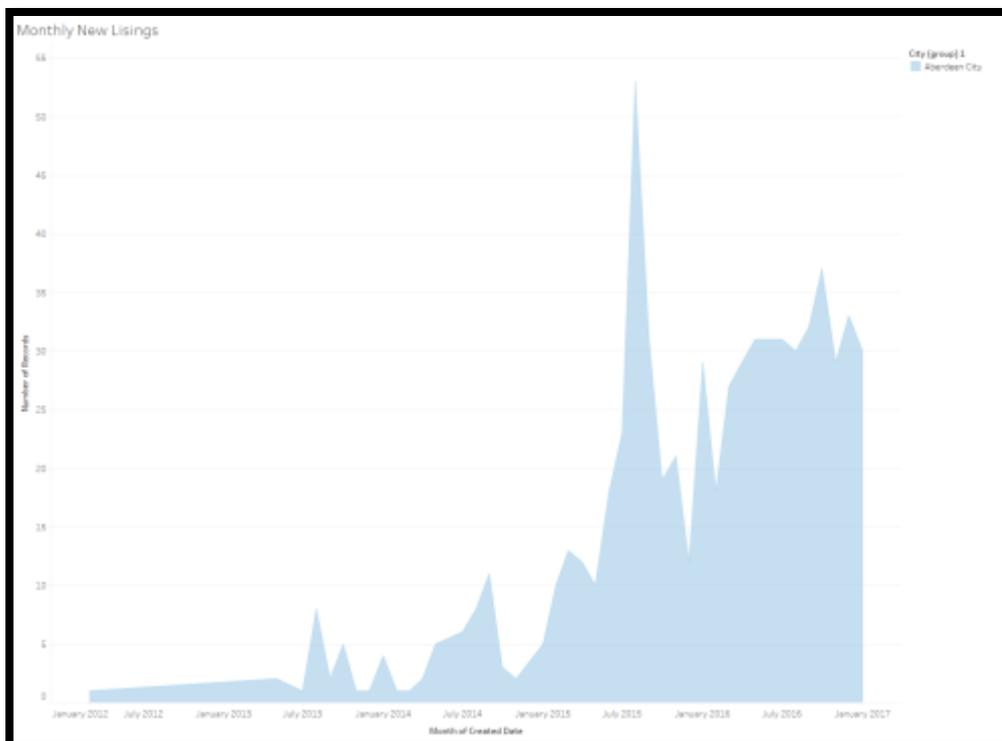


Chart 13 - Paul Lawrie Matchplay / Tartan Ties Aberdeen, August 2015 [Link to Chart](#)



## 5. Drivers of change and impacts

### 5.1 Introduction

This section of the report provides qualitative insights on demand, supply and the drivers of change in this sector. This is based on discussion with 30 stakeholders from the following sectors: tourism, residential letting agency, short stay developers, housing and planning policy professionals, local government in Edinburgh, Glasgow and Highland, and community representatives in Edinburgh. These insights were provided on a non-attributable basis. The consultees were concentrated in Edinburgh, with some also from Glasgow and the Highlands reflecting the volume of short let activity in Scotland.

### 5.2 Demand drivers

The key demand drivers for short let accommodation have been identified by consultees as

- increased tourism
- changing business / employment patterns.

Tourism in Scotland is growing. Tourism Scotland 2020 was launched in 2012 with an ambition to grow visitor spend in Scotland by £1bn from £4.5bn to £5.5bn to 2020. According to the Scottish Tourism Alliance, spend at the 2016 mid-term review the visitor spend is at £4.8bn. To achieve the £5.5bn the priorities between 2016 and 2020 are to strengthen digital capabilities; strengthen industry leadership; enhance the quality of the visitor experience which includes accommodation; and, to influence investment in flight access and transport connectivity.

Edinburgh's midterm tourism strategy review 2016 showed that total spending by visitors staying overnight has increased by 30% from 2010 to 2015. Edinburgh's new 'stretch' target set out in the mid-term review is to generate a further £400 million of tourist spending by 2020. Glasgow showed an increase of 3.2% in overnight stays between 2010-2015 from £594m to £613m, and Glasgow's ambitions are to grow the economy by increasing overnight leisure tourism by one million visits per year and growing spend to £771m per annum. Other thriving destinations include Argyll and the Isles where the 2020 target has already been exceeded, and Arran has seen a growth of 17% since 2010 (Scottish Tourism Alliance, 2016). Highland's review showed total overnight spending increased by 31% from £537m in 2010 to £706m in 2015, and according to the Highland Tourism Action Plan growth ambitions mean that the value of tourism could grow to between £900m and £1.07bn by 2020.

Most the consultees identified tourism as the key driver for demand for short let accommodation, particularly in peak times of visitors. Many of the consultees discussed the positive impacts of increased visitor numbers with overall economic benefits to their areas. All the consultees from the tourism sector discussed the priorities around improving the visitor experience, and the requirement to increase accommodation capacity. These consultees saw home sharing models as a useful way of contributing to increased capacity, and providing authentic experiences for visitors. However, some of the consultees in the tourism sector offered caveats around the possible impact on the availability of long term

accommodation for workers in the tourism sector, particularly in more rural areas of Scotland.

In Edinburgh's case, just as many consultees argued the downsides of tourism and "*the relentless drive by the Council to promote Edinburgh as a tourist and leisure destination a 'Festival City' and a 'Party City' - at expense of other uses. It likes to promote Edinburgh as a 'Living City' yet it is making it more and more difficult for people to live in the city.*" Another consultee argued "*the Royal Mile is a tourist playground, like Disney, its not a living City anymore*".

Consultees in Edinburgh reflected on the long tradition of letting out rooms, and whole flats by residents in the busy festival period, and across the year on a longer-term basis. The benefits of renting out a room were highlighted for visitors, longer term lodgers and owners. This is highlighted by Airbnb recent overview of the Scottish Airbnb performance (2017) which shows that hosts' median annual earning in 2016 were £3,600 in Scotland, and £3,900 in Edinburgh. While letting out rooms and lodging is generally accepted by consultees as beneficial, it is the scale of growth in the entire flat short-let 'informal' market, and potential impact on the long term residential accommodation which is of concern.

Consultees in Edinburgh discussed the fact that visitor traffic appears to be almost all year round now apart from quieter months of January and February, although it was also noted that the Edinburgh tourism strategy is to 'fill' these quieter times, fuelled by cheap flights to the expanding Edinburgh airport.

Tourism consultees in Glasgow were positive about the collaborative models for short let accommodation, discussing the contribution it can make in meeting its tourism targets, which also fits with its brand of 'People Make Glasgow'. From a housing and planning perspective, the growth in short term let accommodation is being monitored, and there is a desire to harness the benefits of emerging models for the City's tourism objectives, while minimising the impact on long term housing supply. These objectives have recently been articulated through the City Development Plan and revised definition of tourism accommodation (see case study below). However, one letting agent consultee in Glasgow did not see tourism as the key driver for the growth of short let accommodation (with exception of the Commonwealth Games and key events at the exhibition centres), but rather "*purely*" supply led driven and "*how to make maximum profit in minimum time*".

In terms of other demand drivers, the changing nature of business, less secure and shorter term contract work was also identified as a key driver of demand for short lets. One consultee also described this type of demand as "*not to be forced to commit to a longer tenancy i.e. 6 month short assured*". Flexibility for the business sector is seen as paramount, with short-lets often presented as more comfortable, homely and easier for eating compared to a hotel room, especially where it is for a week or more, rather than a few days.

Consultation with letting agents suggested this market could be segmented as follows:

- Short lets - Flexible alternative to short assured tenancies; typically one to three month also termed commonly as serviced accommodation;

- Holiday lets (especially festival lets in Edinburgh) and short visits - usually 3 nights to 3 weeks duration.
- Airbnb – more informal as homely alternative to hotels and B&Bs.

### 5.3 Supply drivers

Consultees identified three key supply drivers:

- the high potential for investment return in high demand areas, combined with
- lack of regulation in the short stay compared to the residential sector, or commercial short-stay sector, and
- the changes to the residential tax regime.

#### Investment yields

Consultees identified the financial attraction of short-let as one of the key supply side drivers in this market. This is due to the yields that can be achieved in key hot spots, although agents did emphasise that this is a location specific market, driven by tourism and business sectors.

Examples were provided of accruing conservatively up to £20,000 per annum for letting for half to two thirds of the year and still leaving flexibility for the owner to use the property if they wish to do so, or earn more. This compares to residential lets of between £700 and £1,800 per month in Edinburgh, less in Glasgow accruing between £9,000 and £20,000 but with no flexibility, and much higher regulation (see further below).

Consultees noted that even if owners are not 'professional' landlords or property investors, Airbnb and other similar platforms makes short letting easy. It was suggested there is 'flouting' of planning regulations, mortgage and insurance terms around occupancy requirements. Airbnb is clear in its terms and conditions that owners must ensure they are meeting the various regulations and obligations, but consultees noted there is no way of monitoring or enforcing these terms. Illegal practices were also identified as a factor in the private rented sector with tenants sub-letting for short lets without permission, and agents contracting with landlords on the basis of residential lets, but actually letting on the basis of short lets without their clients' knowledge and pocketing the difference in profit.

A number of consultees that monitor sales in the Old Town in Edinburgh suggested that there is very little stock coming on the market, and what is coming on is being marketed by agents with wider UK and international profile, marketing for the investment markets rather than local residential markets.

#### **Lack of regulation of short-let accommodation compared to residential sectors or traditional short-let markets**

The lack of regulation of short-let accommodation was raised by consultees on a number of counts:

- ease of entering the short-let market; few regulations compared to other residential sectors, and the discretionary and reactive nature of planning enforcement;
- providing a more attractive alternative to residential letting which is increasingly regulated in Scotland;
- avoiding registration of commercial short-lets for tax and other regulatory requirements;
- lack of health and safety regulations, and lack of level playing field with traditional sectors of hotel, B&B and guest houses, despite the risks where whole flats are let out constantly, and in concentrations in stairs / closes.

The ease of entering the short-let market is supported, it is claimed by consultees, by few regulations in this market. As discussed above, regulations for private residential dwellings used for short stay are confined to planning permissions for change of use, or building regulations. Consultation has confirmed that Planning Enforcement is discretionary, and is a reactive approach led by complaints from the general public. Planning enforcement has to be in the public interest, with each case considered on its merits. It was also noted that if there is no complaint about a change of use within 10 years, then there is 'deemed consent'. Furthermore, planning authorities do not have the resources to proactively seek out every potential property which may feasibly have changed use from residential, to what could be deemed as commercial visitor accommodation.

Consultees identified that short let owners do not have to register as a landlord, or obtain a House in Multiple Occupation (HMO) licence, and so there is no control over health and safety of occupants, e.g. fire alarms, electrical checks or gas appliance checks and maintenance. Consultees claimed that the risks are similar, if not greater than long term lets or HMOs; if whole flats are constantly being let out on the basis of short lets, there is greater turnover, the number of visitors in one flat at any one time can be similar to an HMO, and there are concentrations of short lets in one stair/close.

This ease of entering the market and lack of regulation is the opposite to the increasing regulation in the private rented sector. The majority of consultees welcome the increased regulation in the private sector, but the key point being made is that when owners are faced with greater potential yields, combined with lower regulation and greater flexibility in use of their property then they may choose a short let. It was noted that some property owners/investors mix models of short term and residential lets, mixing student accommodation or other short assured tenancies and summer holiday lets. This was discussed in Edinburgh and Highland. The prospect of the new Scottish tenancy to be implemented from 2018 will give landlords less flexibility, and means that landlords and agents are now discussing the straight choice between residential or short-lets. Consultees suggested that this tenancy change, combined with other supply drivers of regulation and new tax disincentives in the residential markets means these discussions with clients are becoming more regular, where properties are suitably located for short lets. Four different letting agents noted the slow, but steady drift of residential lets to short lets, removing this stock from residential use. One consultee in the advice sector considered that "*security of tenure should trump everything, but the move to short-lets is the downside of the new tenancy*".

Consultees from the B&B and commercial short let and self-catering sector identified the lack of level playing field in relation to regulation of the 'informal' short let market. One person stated "*there are unregulated hotels the length and breadth of the Old Town*". Another consultee from the residential agency sector suggested "*its going to take a tragedy for people to sort the safety and compliance issues*". Consultees in the tourism sector talked about the enhanced fire and safety risk and loss of security from the informal short let sector (as above, gas safety, carbon monoxide etc.), with no inspection or enforcement of safety compliance. It is claimed unfair competition as hosts on Airbnb can undercut hotels and B&Bs by saving on compliance costs, with consumers at risk from unregulated, unchecked accommodation where there is no public liability insurance cover. It was also noted that the UN World Tourism Organisation (UNTWO) has recently called for a redefinition of the so-called 'sharing economy' claiming that "we need a fair playing field and safe, secure product" (Taveloution, 2017).

### **Residential tax regime**

The final supply side driver is the change in the tax regulation for residential investment. From April 2017, the tax relief that landlords of residential properties get for finance costs (mortgages) will be restricted to the basic rates of Income Tax. This change affects landlords that let properties as an individual, and will be phased in over four years from April 2017. It means that mortgage costs will no longer be taken into account when working out the taxable property profits (HMRC 2016).

Consultees confirmed that will make a significance difference to some landlords, and will affect their decision around the balance of their portfolios. Some may chose to incorporate (where all business costs can be offset against income), others may sell, whereas others may move residential property into a holiday let for tax purposes where mortgage interest relief is a wholly deductible expense and so will inevitably push some people to get out of the residential tax system and into the business tax system. It was suggested that under the new tax regime, an individual with a small portfolio of one or two properties in the right location would probably be better off letting as short lets, than they would be keeping them as residential lets. Several people argued that Government should be incentivising residential letting through the tax system, rather than incentivising short lets.

## **5.4 Impact on Housing supply**

The main impact on housing supply were identified by consultees as :

- Displacement of residential accommodation to short let accommodation
- Inflation effects on house prices and inability for the local population to compete for residential accommodation
- Providing rooms for lodging by owners are seen as positive contributions for the individual home owner, wider housing market and local economy.

Most consultees considered that short lets of entire homes have negative impacts on residential supply, specifically displacement of private rented sector properties and the potential for sale of accommodation for residential use, whether for rent or ownership. Due

to the informality of much of this market, there is no official data on the transfer of residential accommodation to short let, and tracking this movement would require indepth examination of the electoral register as a proxy for movement from permanent residencies to temporary short let accommodation. Research of this kind has been undertaken for a limited area by the Grassmarket Residents' Association which shows that between 2009 and 2016, the number of houses with electors in the Grassmarket fell by 20% to 60%. They argue this indicates that short-stay accommodation has increased considerably, with a sharp reduction in the resident population.

One local resident consulted as part of this study has lived in the Edinburgh Old Town for 40 years. Originally there were five owners out of five flats in the stair, and she felt she lived in a community. Now she is the only one remaining, with all other properties being short lets, and she feels there is little sense of community in her stair, or the wider Old Town. Two residential properties recently transferred ownership in her stair through inheritance to wider family members who are keeping the flats for investment purposes and short letting. These types of stories were repeated by several Edinburgh resident consultees. Concerns are also raised over the impact that this type of market has on house prices and rents, resulting on the inability of residents to get back to the higher demand areas. A recurring theme was that the tourism market is 'sucking out' residential supply leaving a 'hollowed-out' city centre (in Edinburgh's case).

Another consultee suggested that short lets are distorting supply: *'it's like a leaking bath – on the one side the Scottish Government is pumping millions into the supply of more housing, and at the other end we are losing supply to short-lets; it doesn't make economic sense.'*

In the Highlands, the Council confirmed long rehearsed policy concerns over the impact of second homes and holiday lets on the supply of residential accommodation. However, Highland Council was clear that this has *'always been an issue'* and it has not yet analysed the extent to which the emerging models of short let accommodation are increasing the negative impact of short lets on long term supply, or whether platforms are just providing another, or easier route to market. As discussed above, consultees working in the local authority, advice and tourism sectors in the Highlands, all see the potential for landlords shifting from the residential letting sector to the short stay sector where properties are in the right tourist hot spots. But it was also stressed that there are a number of demand led (tourism, buoyancy of the economy in many part of the Highlands), and supply led factors as discussed above which when taken together add more pressure on the housing system. Highland tourism consultees raised the pros and cons of the increase in emerging models of accommodation – on the one hand potentially providing more visitor accommodation (although qualified by not knowing whether this is new or existing holiday accommodation), and on the other, potentially reducing the supply of tourism sector worker accommodation.

Not all consultees believe short lets were responsible for the lack of residential supply in tourist hot spots, and some questioned whether these places ever had a 'real' residential population or community. The impact of prices may also be explained by other market drivers and uses including hotels and student accommodation. Clearly, this is an area where more quantitative analysis is required to track the change in resident population and prices at neighbourhood level.

As discussed above, the so called 'homesharing' is not all seen as negative; renting a room to lodgers were considered by consultees as a good way for homeowners to let a spare room, to make home ownership more sustainable and provide relatively affordable accommodation for others. As shown in the analysis of the Airbnb listings in 2016 above (Chart 3), we can see that letting private rooms is only 11% less common in Edinburgh than letting entire homes (2537 private room, 2851 entire home), in Highland listings types are broadly similar (632/684), and in Glasgow more people let out private rooms than entire homes (362/273). Consultees in Glasgow do not see the same level of impact of short lets in concentrated areas, as has been experienced in Edinburgh, and generally there were more positive comments about home sharing and potential to contribute to the tourism economy than was found in Edinburgh.

## 5.5 Social impacts of the changing market

Social impacts of short let accommodation were:

- Loss of community – closely aligned to the perceived housing impacts, but also impacts on the local community's economy;
- Increase in noise and waste, including the 'party flat' phenomenon;
- Absentee landlords of short lets, and lack of accountability;
- Damage to the built heritage.

### Loss of a residential community

A recurring, and strongly held view from community representatives in Edinburgh (including those representing local constituents at local and national level) was the negative impact that concentrations of short let accommodation has on communities. Several consultees said that the community and social impacts are of the greatest concern in this debate. This is keenly felt in Edinburgh's Old Town. As discussed above, this is associated with the 'hollowed out' city centre, lack of access to residential accommodation and 'dwindling' of the community. It was argued that part of the attraction of the Edinburgh City centre as a tourist destination was that it is a living city which is being, or as one person suggested, has been lost. Another community consultee claimed that '*residents are needed to manage a place, and with less and less local resident population, there will be less complaints and less management – it becomes a tourist attraction, not a place to live*'. Associated with the loss of community is the loss of infrastructure to support that community including local shops, replaced by amenities that support tourists - cafes, restaurants and more expensive convenience stores.

These views relate to the experience in Edinburgh, whereas in Glasgow the experience of short lets, and homesharing in particular has so far related to rooms within flats, and there is not been the residential and community concentration in the city centre which could be affected by the supply shift to short lets. In the Highlands, the consultees did suggest there are concentrations of holiday accommodation in certain tourist hot spots which affects community sustainability.

There are strongly held views in Edinburgh about loss of community, social impact and limited scope to '*get the community back*' in concentrated areas of the city centre. As outlined above further work is required to assess the extent to which permanent residents have left the city centre or not, and the extent of entire home short lets compared to private rooms within homes, assessed at local community levels.

### **Noise and waste**

Other aspects of social impacts identified relate to increase in noise and waste. This included references to 'wheelie suitcases' in the street and suitcases bumping up and down residential close stairs, the growth of party flats for hen and stag weekends within closes, increased traffic from people to clean apartments between lets, large crowds on the streets, increased litter, and late-night noise. These are all aspects of increased tourism, but the point being made was that the impacts are felt closely within residents' living environments, and are argued to be "*forcing people out*".

### **Absentee landlords and accountability**

There was some discussion from consultees about the different models and the advantages disadvantages and of these in relation the management of short lets and impact on the local residents and community. Several community consultees suggested that most short lets of entire homes are owned by absentee landlords which makes them less accountable for management issues, and have no links or interest in the local community. It was highlighted that this is also a problem when there are common repairs. Some people associated the rise of Airbnb and similar platform based short let accommodation with the rise of 'remote' management. The lack of public recording of host identity on Airbnb and similar platforms means there is no way of making further investigations over the validity of these claims. The use of ratings in the platform based models is argued by others as a strong way of ensuring quality, which includes property and neighbourhood management.

More traditional models, including those let through agents, B&Bs with owner managers, and those recorded as holiday lets on the valuation roll are seen to be more accountable. There is a perception that people can more easily contact the managers or owners, which provides some reassurance of local contact if problems occur, and also suggests there is local accountability and "*vested interest in the city or community in which they work*". For longer term short-lets (typically over 7 days) agents talked about vetting and matching of potential occupiers to property, developing personal relationships, meeting at offices and on site and being on hand if any problems occur.

A separate point, raised by several consultees was the perceived impact on traditional B&Bs. This is particularly relevant in city environments where in Edinburgh and Glasgow planning permission is not provided for commercial B&B businesses within a stair. This means in a city environment most B&Bs are located on the periphery of the city centre, but tourists usually want to stay at closer proximity to the city centre. It is suggested that the increase of informal short lets which do not adhere to planning permission is putting traditional B&B outwith the city centres at a distinct disadvantage. Airbnb terms and conditions advise hosts to comply with local regulations. Further work is required to research more fully the extent to which B&Bs have suffered in local markets as a result of

emerging collaborative models, but the occupancy levels and pricing trends for 2015 at the Scottish level discussed in section 3 above does not suggest obvious negative impacts.

### **Built heritage**

In terms of the built heritage, in Edinburgh community consultees raised the exponential rise in the number of key safes screwed onto the outside of listed buildings, with no Planning enforcement action to prevent more. This is in the context of Edinburgh being a World Heritage site.

The following section summarises key findings across two key markets – Edinburgh, and Glasgow in case study form.

## **6. Case studies**

### **6.1 Edinburgh**

#### **Demographic and economic drivers**

Edinburgh is a prosperous city, with strong demographic and economic growth performance and projections. Edinburgh has one of highest projected population increases of +17% to 2039, which compares to the Scotland average of 7.5% growth. The long-term household growth in Edinburgh is 47% compared to Scotland's overall growth of 31% (NRS, 2014).

#### **Housing market and housing need**

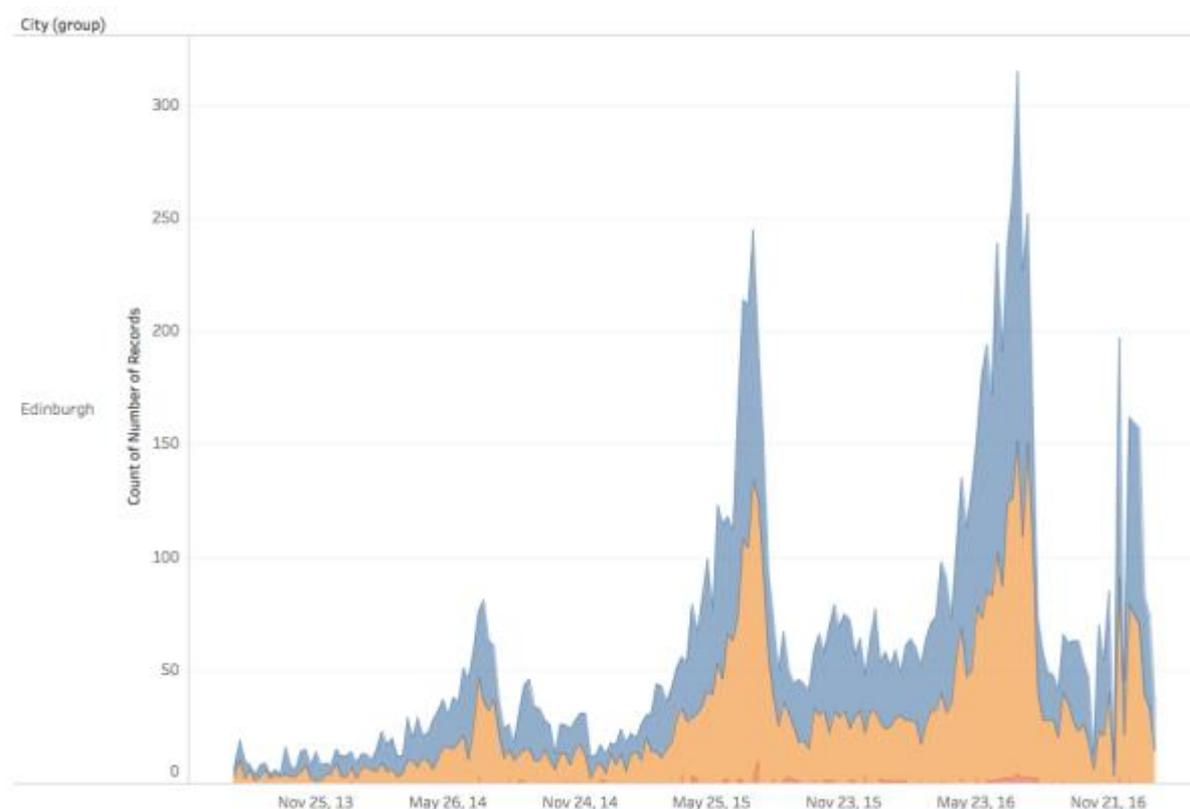
The Edinburgh housing market is pressured with average prices of £227,928 against Scotland's average of £138,821 at February 2017 (UK House Price Index, February 2017). The Council's Strategic Housing Investment Plan (SHIP, 2017) reports how housing costs in the city continue to increase and the number of new homes being built is not meeting housing need and demand, particularly for people on lower incomes. Despite Edinburgh's economic strengths, evidence shows that not everyone in the city is able to share in this success. The second Housing Need and Demand Assessment (HNDA2, March 2015) shows that housing need in Edinburgh remains high, identifying demand for between around 38,000 and 46,000 new homes in Edinburgh over the next ten years. The report identifies that most need and demand for housing is for households who cannot afford buy or rent at market prices. The SHIP identifies the requirement for at least 16,000 more affordable and low cost homes over the next 10 years by investing nearly £2 billion in their delivery.

#### **Tourism strategy and short let accommodation**

Edinburgh's tourism strategy is to increase visitor spend by £400 million 2020. To reach this target, additional capacity is required through additional major hotel development, increasing occupancy rates, and continued growth in the use of short-let properties. The strategy identifies the consumer demands for authentic and unique experiences (and value), and states the "sharing economy" is playing a growing part of tourism through the growth of Airbnb. The strategy also notes that the sharing economy offers opportunities for those that move quickly, but also challenges in how it can be managed and the potential implications for traditional tourism business models.

Edinburgh has always had a significant supply of short-stay accommodation, given its popularity both as a tourist destination and the site of various festivals. As discussed elsewhere in the report, the Council identified the recent growth in Airbnb compared to commercially registered short let properties. The Indigo House analysis shows a total flow of 5,428 new listings during 2016, and an increase of 332% in listings between Q2 2014 and 2016, and 188% increase in listings between Q4 2014 and Q4 2016, demonstrating the seasonality of use of short let accommodation – see chart below.

## Change in Edinburgh listings



### Stakeholder opinion

Despite the positive aspects of homesharing identified in the Edinburgh tourism strategy, stakeholder opinion amongst those consulted in Edinburgh reflects concern over the growth of the short stay market. This is around perceived loss of residential supply, and community impacts where there are concentrations in stairs, and in neighbourhoods. There are also concerns about the higher risks presented where whole flats are constantly used as short lets with multiple tenants in each let, higher turnover and concentration in stairs which means the use is different to the homesharing concept of letting a room, or occasional let of a whole flat which is otherwise in residential use.

### Policy response

The City of Edinburgh Council has a current definition of short term commercial visitor accommodation in the Edinburgh Local Development Plan, set out in its [Guidance for Business](#). However, as a result of recent paper to the Planning Committee (CEC, March 2017) the Council has established an officer working group to examine the issue, and to make representation to Scottish Government to: (i) Amend planning legislation to classify Short Stay Commercial Visitor Accommodation let for 90 days or more per calendar year as a commercial business. (ii) Either amend existing legislation in respect of rented accommodation or bring forward legislative proposals for a licensing/registration scheme for Short Stay Commercial Visitor Accommodation let for 90 days or more per calendar year.

## 6.2 Glasgow

### Demographic and economic drivers

Glasgow has experienced economic growth and development in recent years, bolstered by business growth in high-tech and service sectors, and outside London is in the top 3 UK City regions (Glasgow Chamber of Commerce 2017). The population is projected to grow by 8% over the long term to 2039 with household growth projected to be similar to the Scottish average at around 30% (NRS, 2014).

### Housing market and housing need

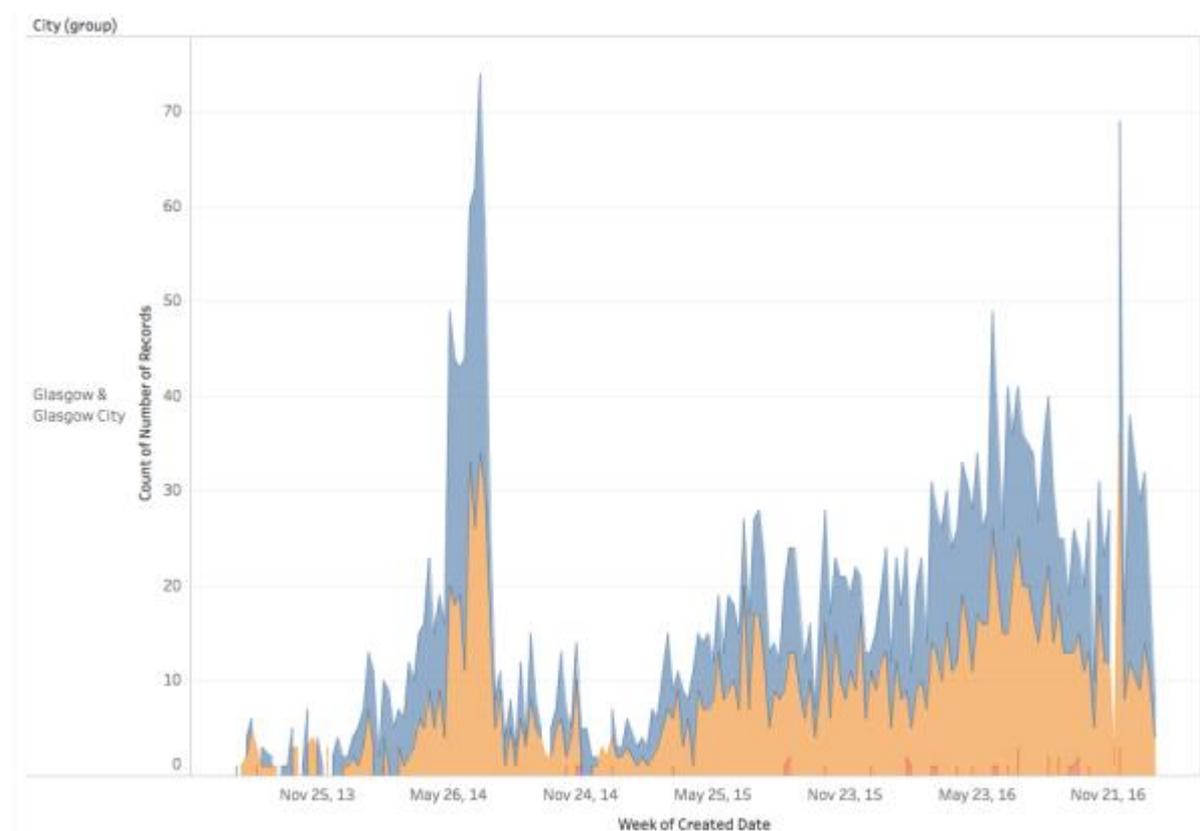
The Glasgow housing market is mixed, with lower average prices of £118,785 compared to Scotland's average of £138,821 at February 2017 (UK House Price Index, February 2017). The draft SHIP (2017) set out the Council's overarching strategic priority is to increase the supply of good quality housing in the city to house the growing population and drive the economy. The level of housing need for affordable rented housing in the city is projected to at least 1,400 units a year over the next 10 years. The development of private sector owner occupied housing is important to the growth of Glasgow's economy and is vital to housing its growing population. The city's approach to regeneration recognises the need for mixed tenure development and the role that new private housing can play in protecting previous public investment in social rented housing stock. However, private developer interest has been weak over recent years with completions being under 1,000 from over 3,000 at the peak of the market pre-credit crunch.

### Tourism strategy and short let accommodation

As discussed elsewhere in this report, Glasgow has an ambitious tourism strategy to increase overnight leisure tourism by one million visits per year over the next seven years, and growing the spend from £482m to £771m per annum. Increasing visitor accommodation is seen as a key enabler to this growth and the city has a pipeline of developments with a projected 1,800 hotel bedrooms. However, Glasgow requires 2,500 rooms to meet increased demand from current, and projected, leisure and business tourism markets. Glasgow's tourism strategy is supportive of Airbnb and similar offer, recognising that "living like a local" is increasingly popular, being based in a distinctive neighbourhood and helps visitors 'get under the skin and discover Glasgow'. Glasgow was aware of the increasing supply of short lets during the Commonwealth Games to meet the increasing demand, and is now working with Airbnb to enable growth to meet the further investment requirements in accommodation.

The analysis above shows that the total flow of 645 new listings during 2016, and a reduction 54% in listings between Q2 2014 and Q2 2016, and 325% increase in listings between Q4 2014 and Q4 2016. While this shows the relatively low level use of Airbnb in Glasgow compared to Edinburgh, it also shows how it has increased dramatically within Glasgow particularly over the busy event period of Commonwealth Games, and other event periods.

## Change in Glasgow listings



## Stakeholder opinion

Stakeholders in Glasgow from the tourist sector are very positive about the role that Airbnb and similar sharing accommodation models can make to the growth ambitions in Glasgow tourism economy. Housing and planning professionals also see its positive potential, although recognise the negative impact that exponential growth could have on some communities in the future. So far the City Council have had low level annoyance complaints, which tend to spread across different communities. This reflects the very different geographic context in Glasgow compared to Edinburgh where there is not a concentration of residential accommodation in the city centre, and other communities of interest to visitors are spread across the city.

## Policy response

Glasgow City Council has recently approved its new City Development Plan which includes [supplementary guidance](#) 'Meeting Housing Needs' which includes a definition and policy in relation to 'tourist accommodation'. This recognises the value that this type of accommodation can play in the city, but also guards against mix of use in residential settings. While the Council recognises that some form of national framework may be required for this issue, it also wants to see scope for local flexibility to respond at a City or community level to meet the economic and housing needs of the area.

## 7. Conclusion and areas for further consideration

This scoping study has provided an initial overview of the demand and supply of short-let markets in Scotland. It has identified and discussed the different business models, and explored the key drivers to change in this market.

Through the process of this research we have found challenges to the identification of this market because of the opaque definition of short-let accommodation, the range of formality and informality, and lack of recording and reporting in this sector. However, the literature review and the secondary data analysis, complemented by the qualitative research shows the following key themes:

- Lack of clear definition and formal recording of the scale of short lets, especially now due to the increase in more informal, emerging models of short lets through internet platforms;
- There are strong demand and supply drivers in this market. On the demand side these are location specific driven by the continuous growth in tourism in Scotland and flexible business sector accommodation requirements. The supply side is driven by the potential investment yield (again location specific); lack of regulation in the short stay sector compared to alternatives in the residential market which are increasing from 2018, and more stringent regulation in the more formal holiday short stay accommodation sectors; and, from April 2017 tax disincentives in the residential sector. Taking these altogether provides strong drivers for the short-let accommodation sector.
- The data analysis suggests that demand is strong in this sector across the traditional and emerging sectors, although more data and analysis is required on trends in the traditional sector which are less readily available. The growth of short-lets as shown through listings on Airbnb has been exponential over the last few years, but again is location specific associated with thriving tourist centers and holiday locations. The growth in Edinburgh dwarfs most other places, but Highland has also seen significant growth.
- Impacts are identified in the literature review as confirmed through consultees for this research. These are around displacement of residential accommodation, loss of community and amenity, absentee landlords and lack of accountability and effects on the built heritage.
- The evidence shown for Edinburgh, Highland and Glasgow shows that the change in this market is not felt in the same way across Scotland. While the evidence suggests there is considerable negative impacts in some areas, in other areas this needs to be balanced with the economic benefits to increasing the types and volume of accommodation for visitors in some areas.

This scoping study has identified some further areas for potential investigation. However, the weight of evidence even in this scoping study suggests that government intervention is required in the areas of high tourist demand and in pressured housing markets to alleviate the negative impacts of this burgeoning market. The four key considerations arising from this study are:

- How can the **impact on residential housing supply** be managed effectively? Should this be left to a Planning led system where change in use enforcement relies on reactive

complaints, or should there be a change to tenancy law, or should another approach be developed?

- How can the **impact on change of amenity** be managed for residents and communities where there are concentrations in communities? Does this suggest a change of use class in the planning system, or something else?
- How can the potential **increased health and safety risks** caused by the effective change of use from residential to visitor accommodation be minimised? Risks are higher where there are multiple people in one flat in a stair, and where there are multiple short lets in one stair. Can the current licensing system be used or adapted, or is something new required to manage these risks?
- The options to be explored to mitigate the risks to long term housing supply, the impact on communities, and the risks to health and safety should be **balanced against the positive role that short lets can play in Scotland's tourism economy**. This should allow for **location specific**, and **type of short let specific** responses to regulate the sector i.e. to recognise that different responses might be required for occasional (single property), regular (single property), and commercial short let (multiple properties) etc.

In considering these options further, areas of further investigation identified through the course of this study could include:

- Definition of short-lets – legal opinion on definition with conclusions on whether a new legal definition is required which should help in recording and monitoring;
- Identification of the proportion of short lets marketed through online platforms that are new supply, and that which is existing short let supply using platforms as a route to market;
- Concentration of short-lets by community – further drilling down on the data analysis by specific high demand areas;
- Housing impact – tracing movement from permanent to short-let residences;
- Traditional short-let sector impact – further analysis of impacts in areas of greatest growth of Airbnb.
- Wider consultation in areas of high demand identified by the data analysis.

## Appendix 1: Other cities experiences and policy responses

**Amsterdam.** Has been far more receptive to Airbnb than other European destinations. In February 2015, Amsterdam announced a co-operative effort with Airbnb in which the city will levy the municipalities tourist tax on all such rentals, while Airbnb agreed to work to ensure potential hosts are aware of all pertinent rules and regulations.

Amsterdam city council in 2014 approved new private rental laws which allow residents to occasionally rent out their homes, for up to 60 days per year, under certain conditions, such as the payment of related taxes (including tourism taxes), as long as there were no complaints from neighbours (Coldwell, 2014). Residents can let out rooms in their own properties, but the city authority and housing associations ban such letting in their rented stock.

**Barcelona.** Barcelona's regulatory framework has existed since 2002, and was subsequently revisited in 2012 and 2014 as political pressures surrounding short-lets increased. This legislation allows for the 'touristic use of houses' (TUH), or short-term rentals of entire flats, but not separate rooms for less than 30 days, but then only after obtaining a license. In May 2014, there were 9,606 TUH all over the city (Sans and Dominguez, 2014).

The legal framework defines three relevant characteristics of the TUH. First, the granting of the license removes the properties residential status, so the apartment can no longer function as an inhabited household, but solely as a legal business property. Secondly, the regulatory framework has a direct link to local planning regulations. Barcelona regulates what are termed as 'public business sites', which include hospitality activities, within their 'Plan of Uses'. Operating at both a district and municipal level, these plans determine the number of licenses for a specific urban area, as well as the physical distance between similar businesses, with the explicit aim of limiting externalities and monopolistic situations (Sans and Dominguez, 2014). In 2010, after a very turbulent and heated participatory process, the 'Plan of Uses' was approved for the Ciutat Vella District in order to mitigate significant of tourist development and activities pressure within all these central neighbourhoods.

Third point to be considered in the regulatory framework concerns the obligation to make public the official register number in any advertisement, otherwise, the offer could automatically be considered illegal. Although there were many TUH offered on Airbnb's site, many failed to show any kind of legal license, and hence the fine.

In reviewing this situation, Sans and Dominguez (2014) concluded that Airbnb, by their actions, openly flouted the current hospitality and urban regulatory framework in three ways: first, by allowing the announcement of separate rooms for short-term renting; secondly, by publishing adverts without the required registration number; and, thirdly, by publishing listings in areas where planning laws explicitly ban short-term rentals, because they are seen to contribute to overcrowding in the central urban area.

**Berlin.** Berlin has long been a go-to city for creatives. Even when it was partitioned into East and West, the city attracted an alternative crowd. When Berlin's population shrank between 2000 and 2012 the resulting surplus of cheap accommodation drew in young

artists, creatives, musicians and hipsters from London, Amsterdam or Paris, due to prohibitive house price inflation and ever-increasing rental costs.

Berlin's housing costs had long remained affordable because of a law known as Zweckentfremdungsverbotsverordnung, which explicitly prevents property owners from changing the use of properties. This makes it difficult to convert residential buildings into commercial property, and has protected much of the city's housing stock from development since the Second World War. Similar by-laws also exist in other large German cities, such as Hamburg and Munich. The city has also long had strong tenancy rights for those renting in either from private or housing company landlords, as well as tight rent restriction legislation.

In May 2016 Berlin announced that it was banning city residents from renting out their flats to tourists through Airbnb. This move was justified on the basis of the city's acute housing shortages, recent unprecedented population growth and marked changes in Europe's housing system following the financial crisis of 2018.

German officials, placing some blame on Airbnb for Berlin's increasing rents and housing shortages, passed a law banning short-term rentals that have not received explicit permission from the Berlin Senate. Furthermore, in February 2015 Berlin's State Court reinforced earlier rulings against sub-letting, granting landlords the power to evict tenants they catch sub-letting their apartments to Airbnb users.

**Edinburgh.** Edinburgh has always had a significant supply of short-stay accommodation, given its popularity both as a tourist destination and the site of various festivals. There is a tradition of people letting out their homes during the Edinburgh International Festival in August, given the high rentals that can be charged to artists and visitors alike. Such properties were traditionally advertised through specialist letting agencies, private adverts, websites and word-of-mouth. Recently, the emergence of Airbnb has dramatically changed how people access such short-stay accommodation. One unexpected consequence of this change is that it is now easier to gain an insight of its actual scale and usage.

A recent planning report to the city council on the subject of short-lets noted that there were 6,273 listings on Airbnb, of which 3,432 (55%) were entire properties, and of these 2,043 (60%) were available for over 90 days a year (CEC, 2017). This new data would indicate the city's Valuation Roll is under recording that the Council defines as so-called Commercial Visitor Accommodation. Clearly a good number of the Airbnb listed properties are still registered, for local property tax purposes, as residential not commercial premises.

The City takes the view that a property, primarily operating for short-lets, is no longer part of the city's residential stock and therefore should be registered as a commercial business. Further, to officially do this requires planning permission for a 'change of use', a process that would then allow neighbours to object. A commercial registration also means the property would require to contract commercial, not council refuse collection. Then there is the issue of not being able to access to 'residential' parking permit, which is a major consideration given strictly enforced parking restrictions apply in most central city locations.

These properties are concentrated within the historic city centre, running out towards Leith in the north and down towards the Southside, areas that traditionally have been popular with the city's substantial student population. Properties available for over 90 days are mainly concentrated within the city centre, while entire properties available for shorter periods are dispersed right across the city.

With the Edinburgh tourism strategy planning for an increase in the number of overnight trips by 680,000 per year, by 2020, in order to reach this additional capacity there will need to be further major hotel development and, crucially, a continued growth in the use of short-let properties. That said, the Council considers it necessary to ensure the latter growth is explicitly on a commercial footing, operating as quasi-hotels paying appropriate property and business taxes thus introducing a level playing field between them and traditional hotels and B&Bs.

**Paris.** The 'City of Light' is currently Airbnb's most popular vacation destination, with an estimated 40,000 listings (Caldwell, 2015). Both Paris and Barcelona are considered to be the cities most pressured by the short-stay revolution.

In response to this unprecedented growth Parisian city regulators opted to crack down on apartments set up specifically as short-term rental units, with officials then fining violators up to €25,000. There is a maximum 120 days' rental allowed for those property owners who register with the City authorities, and to let short-lets you require to be registered. If you let for more than 120 days then you are deemed to be operating a commercial entity and thus must apply for a change of use permit and register it as a 'commercial property'.

All properties leased through Airbnb are expected to collect the same nightly tourist tax as paid by hotels. The 20-person enforcement team responsible for this operation are also considering levying a charge of €1.50 per night on what are termed 'person-to-person housing transactions' (Schechner, 2015). The motivation here is quite explicit, with the Mayor's housing advisor stating: "*We can't have entire neighborhoods or buildings turned into tourist homes...that's why we're fighting to keep Parisians inside Paris and we won't let tourist rentals eat up their space.*" (Bloomberg, 2014).

**London.** Londoners, interested in renting out their properties on Airbnb, legally can for up to three-months a year (Coldwell, 2015). Since May 2015, hosts in London have been required to obtain change-of-use planning permission if they want to rent their properties for more than 90 nights a year, changes that brought London's rules broadly into line with the rest of England.

Within Westminster, for instance, a short-term lease of less than 90 days per year does not require planning permission, as the property is still considered to be essentially a residential/domestic property which pays Council Tax. However, if the property is used to provide short-lets for more than 90 nights per annum, cumulatively, then it requires planning permission for a 'Change of Use' as the property is defined to be a commercial and not residential/domestic entity. How well such planning rules are enforced is not clear, given that in other jurisdictions the monitoring of such letting activity is hard to gauge unless there is a direct municipal agreement with Airbnb.

A recent report by IPPR noted that certain landlords were motivating to move their properties out of the private rented sector and into short-lets, a change focused largely in high-pressure, inner-London boroughs such as Kensington and Chelsea, Hackney, Camden, Westminster, Tower Hamlets, and Islington. This is where letting entire homes for more than 90 nights of the year dominate and thus these boroughs could find it increasingly difficult to meet the housing needs of their growing populations if this trend continues (Snelling *et al*, 2016)

**New York.** As the largest tourist destination in the U.S. Airbnb has over 16,000 individual listings within the wider NYC conurbation. In 2015, Airbnb achieved over \$1 billion of payments between guests and hosts in the city securing between \$90 million and \$150 million in revenue from its premier U.S. destination. However, city officials have attempted to take a bite out of Airbnb's presence in the Big Apple (Peck, 2015). One notable case was that of Nigel Warren who was fined \$7,000 by an Administrative Court for violating city regulations on short-term rentals. Although the verdict was later overturned on appeal, it was just one of several legal battles between Airbnb users and city regulators.

Moreover, Airbnb took a hard blow last year, when a report by the State Attorney General found that 75% of the city's rentals, over a four-year period, were illegal rentals, with property owners evading millions of dollars in annual hotel taxes. Legislation changed in October 2016 with fines up to \$7,500 for those who advertise vacant apartments in a multi-unit building for 30 days or less, as well as threatening the company's operations within the state (Brustien and Berthelesen, 2016). This measure was described as a means to help prevent the proliferation of illegal, unregulated hotels. As it stands, current NYC law only allows a permanent resident to sublet their property for less than 30 days, and then only if they are still residing at the property. This appears to be becoming a core regulation criteria, namely that Airbnb hosts should be resident within the property during the rental period, and that property should not be part of an Airbnb offering.

**San Francisco.** Airbnb faces mounting criticism from local housing activists that it is responsible for further reducing an already-scant supply of rented housing.

In response to this San Francisco has adopted a policy that closely mirrored that pursued in New York, namely that Airbnb rentals are allowed only if hosts are full-time residents, with total rentals capped at 90 days and all hosts require to register with the city. However, despite these stipulations, the *San Francisco Chronicle* reported that only a fraction of Airbnb hosts have actually done so.

**Santa Monica.** The city effectively wiped out 80% of its Airbnb listings by instigating the toughest regulation on short-term rentals anywhere in the U.S. (Bender, 2015). It was spurred into such action by an overall increase in housing prices and a dwindling housing supply. The new regulations, which have been effective since June 2015, require anyone putting a listing on Airbnb in Santa Monica to live on the property during the renter's stay, register for a business license and collect a 14% occupancy tax from users, payable to the city. Again, actual hard information on enforcement is limited.

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## Appendix 3: New Airbnb listings annual count by local authority

New Airbnb Listings Annual Count by Local Authority [Link to Table](#)

Table of New Airbnb Listings

	2012	2013	2014	2015	2016
Aberdeen City		20	43	227	357
Aberdeenshire	3	4	39	89	210
Angus	1		8	36	115
Argyll and Bute	3	44	96	225	376
Clackmannanshire			13	9	13
Dundee City	1	3	8	33	81
East Ayrshire			13	18	51
East Dunbartonshire		4	19	17	21
East Lothian	1	19	42	105	138
East Renfrewshire		4	14	10	12
Edinburgh	75	601	1,512	3,843	5,428
Falkirk Council		3	9	30	47
Fife	3	32	98	397	431
Glasgow	9	98	819	747	1,405
Highland	4	69	254	680	1,332
Inverclyde		1	15	16	21
Midlothian		5	11	29	92
Moray		10	34	90	180
Na h-Eileanan	2	4	13	35	108
North Ayrshire		4	30	47	111
North Lanarkshire		2	14	19	56
Orkney		4	10	33	57
Perth and Kinross	1	22	78	225	331
Renfrewshire		1	31	47	73
Scottish Borders	2	25	49	114	231
Shetland		4	12	21	43
South Ayrshire	3	6	14	68	268
South Lanarkshire	1	1	37	46	68
Stirling	2	22	78	151	234
West Dunbartonshire	1		19	24	44
West Lothian		4	18	32	65

## Appendix 4: Key Summary Reports

### Key Market Summary Report Edinburgh

<b>Total Available Listings</b>		<b>February</b>
	Entire Place	2798
	Private Room	2115
	Shared Room	42
<b>Booked Listings</b>		
	Entire Place	2422
	Private Room	1427
	Shared Room	33
<b>Room Nights - Entire Place</b>		
	Total Available	107197
	Booked	54159
<b>Room Nights - Hotel Comparable</b>		
	Total Available	24265
	Booked	13211
<b>Listing Nights - Entire Place</b>		
	Available	58229
	Booked	30138
<b>Occupancy</b>		
	Entire Place	51.80%
	Hotel Comparable	54.40%
<b>ADR</b>		
	Entire Place	\$146.04
	Hotel Comparable	\$98.65
<b>RevPAR</b>		
	Entire Place	\$75.59
	Hotel Comparable	\$53.71

## Key Market Summary Report Glasgow

Total Available Listings		February 2017
	Entire Place	719
	Private Room	578
	Shared Room	12
Booked Listings		
	Entire Place	526
	Private Room	382
	Shared Room	7
Room Nights - Entire Place		
	Total Available	22472
	Booked	10995
Room Nights - Hotel Comparable		
	Total Available	4956
	Booked	2829
Listing Nights - Entire Place		
	Available	12657
	Booked	6507
Occupancy		
	Entire Place	51.40%
	Hotel Comparable	57.10%
ADR		
	Entire Place	\$110.31
	Hotel Comparable	\$84.10
RevPAR		
	Entire Place	\$56.71
	Hotel Comparable	\$48.01

## Key Market Summary Report Highland

Total Available Listings		February 2017
	Entire Place	1020
	Private Room	752
	Shared Room	16
Booked Listings		
	Entire Place	814
	Private Room	502
	Shared Room	13
Room Nights - Entire Place		
	Total Available	49231
	Booked	23424
Room Nights - Hotel Comparable		
	Total Available	5841
	Booked	2812
Listing Nights - Entire Place		
	Available	21263
	Booked	10086
Occupancy		
	Entire Place	47.40%
	Hotel Comparable	48.10%
ADR		
	Entire Place	\$137.41
	Hotel Comparable	\$93.99
RevPAR		
	Entire Place	\$65.18
	Hotel Comparable	\$45.25

## Appendix 5: List of consultees

Airbnb  
Association of Scottish Self Caterers  
B&B Association  
Belvoir Edinburgh/Falkirk  
Chartered Institute of Housing  
City of Edinburgh Council  
Cllr Joanna Mowatt  
Edinburgh Festival Letting  
Edinburgh Old Town Association  
Factotum  
Glasgow City Council  
Glasgow Live (Glasgow City Marketing Bureau)  
Grassmarket Residents Association  
Great Base  
Highland Council  
Homes for Good  
Information Apps  
LJ Research  
Andy Whightman MSP  
Rettie  
Scottish Tourism Alliance  
Shelter Scotland  
Visit Scotland