

New Zealand Productivity Commission Inquiry: Local government funding and financing

Thank you for the opportunity to participate in this inquiry into local government funding and financing. In this submission, we present our perspective on tourism and its role in local economies (Question 5 of the Productivity Commission's Issues Paper¹):

To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure and how is this manifesting?

As a leading online marketplace for short-term rental accommodation (STRA) across New Zealand, Bookabach are committed to working closely with the Productivity Commission to share our ideas, experience and knowledge. We are dedicated to working collaboratively with the New Zealand Government, local councils, the tourism industry and communities on fair regulatory arrangements and innovative compliance systems that maximise the contribution of the STRA industry to the nation's prosperity. In our eighteen years of operating in New Zealand (NZ), we continue to use our experience in working with communities and local councils to ensure the responsible provision of accommodation is at the centre of our operating model.

This submission provides a short background on our company, Bookabach, and presents data showing the wider STRA industry's contribution to tourism and the economy of NZ.

In summary:

- Tourism is a vital part of the NZ economy and particularly for regional economies.
- We recognise that infrastructure pressure and the costs and benefits from tourism don't always fall in the same place. This can lead to under-investment in the infrastructure required to support visitors and Kiwi communities.
- We look to central government to work with the tourism industry and local governments to determine better ways to allocate funding for tourism and infrastructure.
- Investments that balance community need, account for local government capability and maintain tourism growth generate significant regional and national economic benefits.
- Bookabach and the wider STRA industry is a major supporter of tourism across NZ, particularly the national strategic goal of regional dispersal of tourists by supplementing accommodation choice and availability.
- STRA is an increasingly popular form of visitor accommodation accounting for 3.2 million guest nights across NZ in 2016 – approximately 7.7% of the total accommodation sector.
- We are not in favour of targeted rates that unfairly target accommodation providers – particularly individuals and family STRA homeowners – when visitation and tourism benefit many other local businesses (restaurants, bars, venues, transport, activity providers).
- We are committed to proper and appropriate regulation of the STRA industry but oppose one-size-fits-all policies that punish the majority of homeowners and guests who do the right thing, as well as the regional communities where such policies have the potential to decimate local economies reliant on tourism.

¹ New Zealand Productivity Commission, *Local government funding and financing*, November 2018, p32

About Bookabach

Short-term rental accommodation is a cherished New Zealand tradition whether for summer holidays at the beach, getaways to the country or exploring a new town. In the past this has been managed directly by property owners themselves or by local agents. Today, with the growth of the sharing-economy and the advent of online platforms – like Bookabach – it is easier than ever for property owners to let their properties for a short period of time and for visitors from all walks of life to find affordable and unique accommodation that meets their needs.

In continuous operation for over 18 years, Bookabach was a pioneer in online short-term rental accommodation. It is NZ's most trusted and leading online marketplace with over 11,100 holiday rentals in over 1,000 unique locations across the country – from humble beachside shacks, to wilderness baches and city apartments. The business has grown in response to strong demand from Kiwi homeowners and domestic and international travellers.

Bookabach provides homeowners a secondary income stream that offsets the expenses of owning/operating a second home or provides supplemental retirement income. For travellers – both domestic and inbound – Bookabach unlocks unique experiences at NZ's best locations all around the country and supports the local businesses and communities that thrive on tourism and the visitor economy. In many of the areas where Bookabach offers properties for short-term rent, traditional accommodation options are limited.

The majority of listings on our platform (over 95%) are secondary residences, holiday homes purchased and used as family holiday homes but let out for short term rental (holiday rental) when not required. Therefore, in addition to providing unique traveller experiences, STRA provides for economic and environmental sustainability, providing more efficient use of existing housing stock for visitor accommodation.

In 2013 Bookabach became part of HomeAway, which is now part of Expedia Group a global leader in online travel. This relationship allows distribution of our NZ Kiwi bach and holiday home inventory to global markets, boosting the inbound tourism opportunity. It also gives us strong partnerships across the entire tourism and travel sector. We are therefore in a unique position to provide a holistic perspective and supporting evidence-base on the Government's role in creating the right policy and operating environment for the entire visitor accommodation sector.

Short-term Rental Accommodation in New Zealand²

Kiwi homeowners and tourists from across NZ and the world are embracing the online model of visitor accommodation. In the 2016 alone, STRA accounted for 3.2 million guest nights across NZ – approximately 7.7% of the total accommodation sector.

Kiwi STRA owners received \$258.8m in revenue over 2016 and spent \$223.3m to support these bookings. Importantly, these stays generated 63% of this revenue in regional areas outside of Auckland and Wellington that prosper from tourism and where traditional accommodation is often not available. Travelers spent \$359.6m during their stay at STRA properties over the 12 months to December 2016.³

The direct impact of STRA activity in NZ contributed \$200.3m to NZ Gross Domestic Product (GDP) in 2016, which is supported by the equivalent of 2,994 FTEs. After incorporating flow-on effects, the contribution to GDP increases to \$258.9m and the equivalent employment supporting the GDP impact increases to 3,524 FTEs.

² All figures in this section are from the Bookabach commissioned report: PWC, November 2018, *Economic contribution of the short-term rental accommodation sector in New Zealand*

³ Note these spend figures represent gross output. They do not consider the costs of production.

Tourism and short-term rental accommodation

Over the past ten years there has been a rapid proliferation in “sharing economy” platforms, online marketplaces that enable owners of underutilised personal capital and/or assets (such as spare rooms or houses) to charge a fee for their use to others. In the accommodation sector, it has become increasingly popular to rent rooms or entire properties for short periods of time. This sharing of privately-owned homes is not new, but online platforms have made transactions between owners and users more transparent and efficient. In NZ, STRA is mainly facilitated by online booking services such as Bookabach and Airbnb.

The STRA industry has become a significant segment of the tourism accommodation sector, providing a range of benefits to travellers, homeowners and local economies. On the supply side, individuals can earn additional income by renting out the beds, rooms or properties they own that would otherwise be sitting idle. On the demand side, visitors benefit from a wider choice of accommodation options across a wider price range. As a result, more people can travel, and in doing so, purchase other goods and services in the region they are visiting.

While hotel and resort style accommodation often provide complete in-house holiday experiences – where visitors can dine, shop and entertain within the complex – STRA encourages visitors to seek out and spend at a more diverse range of local businesses. Visitors can also stay in areas that are not serviced or are under-serviced by traditional accommodation providers. This has the effect of opening up competition and thereby choice. For example, STRA around heavily visited areas such as Franz Josef Glacier offer an alternative to traditional accommodation. Families, rather than traditional commercial providers, have the opportunity to reap direct benefit from tourism to their local area. This effectively creates new revenue streams and reduces barrier to entry in the tourism accommodation sector, ultimately, supporting economies in regional NZ.

A valuable feature of STRA is its potential to act as the catalyst for the development of tourism in new areas – utilising existing infrastructure for accommodation purposes and leading to new opportunities for local businesses that thrive on new visitors. STRA doesn't require significant capital investment or government incentive packages to benefit local businesses, communities, homeowners and visitors alike.

Tourism is vital to the prosperity of New Zealand and its regions

Tourism is NZ's largest export industry and a major source of employment for Kiwis. 216,000 people are directly and another 149,000 indirectly employed in tourism in NZ – almost 1 in seven jobs.⁴ In total, tourism generates an annual contribution to NZ's GDP of \$27 billion – 10.4% of NZ's GDP. Around 95% of Kiwis agree that international tourism is good for New Zealand, according to the latest Mood of the Nation research.⁵

International visitor arrivals have grown by 43% in the last five years⁶ and spending by domestic visitors is also rising.⁷ This increase in tourism growth is only expected to continue. Annual international arrivals are forecast to reach more than five million by 2024.⁸

While there are significant advantages that flow from tourism, particularly to regional areas, there are also challenges that need to be managed. The Productivity Commission's Issues Paper notes:

⁴ Tourism Industry Aotearoa, *Quick Facts & Figures*, Available here: <https://tia.org.nz/about-the-industry/quick-facts-and-figures/>

⁵ Kantar TNS, *Mood of the Nation New Zealander's perceptions of international visitors*, November 2018

⁶ International Travel and Migration Survey May 2018, Statistics New Zealand.

⁷ Tourism Satellite Account 2017, Statistics New Zealand.

⁸ New Zealand Tourism Forecasts 2018–2024, MBIE.

“The growth of tourism, particularly international tourism, has been identified as a source of funding pressure for some local authorities. In particular, influxes in visitor numbers, which are often concentrated in just a few months of the year, can put significant pressure on infrastructure networks.”

If funding arrangements for infrastructure cannot cope with tourist growth, local ratepayers may have to fund the shortfall. This can be particularly challenging for towns with small ratepayer bases but large tourist numbers.⁹ Tourism pressure on infrastructure continues to be the top concern for New Zealanders (44%) according to the latest Mood of the Nation research.¹⁰

Visitor growth can create infrastructure pressure, which, without appropriate regulatory frameworks, aren't always offset by the benefits of tourism. The costs of tourism, particularly for infrastructure, aren't always incurred by the same groups that benefit from it. As a result, under-investment in the infrastructure required to support both visitors and Kiwi host communities becomes a major problem.

This issue can be mitigated through a number of tourism-specific revenue streams (we discuss targeted rates for commercial accommodation providers below). Before canvassing these, it is important that the inquiry does not lose sight of the tremendous economic benefits of tourism that spill over to other parts of the NZ economy and considers any negative impacts its policy recommendations may have on the industry. For example, despite the pressure of peak visitor season in Queenstown, international visitors who come to NZ because of Queenstown spend up to \$254 million per annum in the rest of the South Island (excluding Queenstown). This spending generates up to \$1.10 billion to the South Island's GDP, and supports up to 11,600 jobs in the South Island.¹¹

In addition to the direct booking value added by STRA hosts – approximately \$258.8m in 2016 – there are three key indirect channels through which the STRA sector contributes to local economies. These are:

1. *Purchases of intermediate inputs by hosts related to accommodating the visitors:* The hosts of properties who accommodate short term visitors purchase goods and services from various businesses in the region to provide the property for rent. This creates demand for those services and further stimulates the economic activity in the region.
2. *Host spend:* The additional income received by the local hosts is either spent on purchasing various goods and services including paying off their mortgage or adding to long term savings. This additional spend generates additional economic activity.
3. *Other visitor spend:* During their stays, visitors spend money on a range of goods and services besides accommodation. This includes spending on cafes, restaurants, transportation, groceries and entertainment much of which is supplied in the area where they stayed. This creates additional economic activity.

Though we recognise that infrastructure pressure and the costs and benefits from tourism don't always fall in the same area, we query the validity of the three examples – Southland District Council, Nelson City Council and Auckland Council – raised in the Issues paper to demonstrate the imbalance between local government revenue and expenditure associated with international tourism.¹² Recently commissioned PWC analysis of the economic contribution of the STRA sector alone to these regions in 2016 suggest a significant contribution to local economies.¹³

⁹ MBIE, *Aotearoa New Zealand Government Tourism Strategy: Summary*, 31 October 2018, Available here: <https://www.mbie.govt.nz/have-your-say/tourism-strategy-consultation/>

¹⁰ Kantar TNS, *Mood of the Nation New Zealander's perceptions of international visitors*, November 2018

¹¹ Martin Jenkins, 2018, *Sustaining tourism growth in Queenstown*, available here:

<https://www.qldc.govt.nz/assets/Uploads/1803-Sustaining-Tourism-Growth-in-Queenstown-Final-Report.pdf>

¹² We believe these results should be taken lightly due to the significant limitations of the data as noted by Deloitte Access Economics, 2018

¹³ PWC, November 2018, *Economic contribution of the short-term rental accommodation sector in New Zealand*

- In Southland, where the Issues Paper case study suggests annual revenue attributable to international tourists of up to \$15.5 million (with expenditure attributable to international tourists of up to \$17 million) PwC analysis suggests that the STRA industry alone contributed up to \$4.1 million to Southland's economy.
- In Nelson, where the Issues Paper case study suggests annual revenue attributable to international tourists of up to \$6.5 million (with expenditure attributable to international tourists of up to \$7.2 million) PwC analysis suggests that the STRA industry alone contributed up to \$6.0 million to Nelson's economy.
- In Auckland, where the Issues Paper case study suggests annual revenue attributable to international tourists of up to \$103 million (with expenditure attributable to international tourists of up to \$137 million) PwC analysis suggests that the STRA industry alone contributed up to \$72.4 million to Auckland's economy.

Given the size of the STRA sector – approximately 7.7% of the total accommodation sector – these figures can't be reconciled. We stress that the validity and verification of data is critical for proper planning and policy around tourism and infrastructure requirements. Here, Bookabach and other online tourism platforms can be an invaluable partner to governments and provide valuable insights through our extensive data.

Funding tourism infrastructure

Tourism is vital to the NZ economy and infrastructure is essential to making the most of predicted growth in the sector. Quality infrastructure and facilities also help to ensure Kiwis can continue to enjoy their homes, local areas and other parts of the country.

Tourism funding so far has largely been driven by "level playing field" arguments and the need for Councils to make the STRA industry "pay their fair share" in the eyes of mainstream accommodation providers – and for largely incidental tourism costs, such as funding RTOs. This contrasts with what's needed: an open and national debate on the full tourism infrastructure funding picture, and a nationally mandated funding solution.

We accept that STRA is a commercial activity – distinct from providing permanent rental housing. We are committed to proper and appropriate regulation of the STRA industry and we are in favour of the STRA paying its fair share. We are not in favour, however, of targeted rates that unfairly target accommodation providers – particularly Kiwi homeowners using STRA – when visitation and tourism benefit many other local businesses (restaurants, bars, venues, transport, activity providers). Targeted rates are a blunt instrument for a diverse and complex visitor accommodation sector and are not scalable in relation to tourist number growth – for example in towns where tourist numbers exceed the number of local rate payers.

Investments in maintaining visitor experiences and sustaining tourism growth through world-class infrastructure buy significant regional and national economic benefits. There are a number of revenue mechanisms that can meet local tourism expenditure needs. Though we do not discuss our opinions on these in this submission, for the STRA industry, any tourism funding mechanism must:

- Be fair and equitable to homeowners given the sub-scale nature of STRA as a standalone business, i.e. low yield, low occupancy, low return on capital.
- Apply consistently across the tourism industry.
- Be easily administered so that STRA homeowners, for which STRA is a part-time and marginal activity, are not overly burdened.

The above will ensure we preserve the unique accommodation offerings provided by baches and holiday homes across the country – and maintain the opportunity for regional dispersal of tourism.

We believe the central government can play a larger role in addressing specific funding issues in particular places, including helping local government to address its tourism-related infrastructure deficits and developing new

drawcards for visitors, for example through the Tourism Infrastructure Fund. The government can also increase its efforts to attract and direct private investment into NZ's tourism infrastructure.

Bookabach (and the STRA industry more broadly) can be a valuable partner for Government when considering tourism infrastructure investments. We are able to provide valuable insights into tourism and accommodation through our extensive data. Through greater analysis of platform data, we can collaboratively build and refine strategies and policies that promote investment in infrastructure, economic growth and a healthy tourism sector while ensuring community expectations are being met in effective and efficient ways. Bookabach are open to greater collaboration, innovation and the smarter use of STRA data between platforms, governments, local councils and town planners.

Conclusion

International visitor arrivals to New Zealand have grown by 43% in the last five years¹⁴ and spending by domestic visitors is also rising.¹⁵ This increase in tourism growth is expected to continue.

We recognise that with the growth of any new industry there is some disruption caused to traditional sectors and concerns raised by groups and individuals. That's why Bookabach is working closely with local governments across New Zealand looking at how best to create a well-serviced, safe and enjoyable environment that both visitors and locals can enjoy.

It is fundamental to our approach to business that we support homeowners, guests and the local communities where our accommodation is located. Clearly, STRA will play a vital role in helping achieve the Government's goals for sustainable tourism growth. STRA can help New Zealand effectively capitalise on the special features of the country, by increasing options in tourism hotspots and opportunities for direct participation in the tourism economy by Kiwi families and communities.

Bookabach commits to working with the Productivity Commission to further share our ideas, experience and knowledge on tourism, STRA and related issues.

Kind regards,

Peter Miles
Founder & General Manager
Bookabach / HomeAway NZ
Part of the Expedia Group

¹⁴ International Travel and Migration Survey May 2018, Statistics New Zealand.

¹⁵ Tourism Satellite Account 2017, Statistics New Zealand.