

**BEFORE THE HEARINGS PANEL
CHRISTCHURCH DISTRICT PROPOSED PLAN CHANGE 4**

IN THE MATTER of the Resource Management
Act 1991

AND

IN THE MATTER of Proposed Plan Change 4 to
the Christchurch District Plan:
Short-Term Accommodation

**BRIEF OF EVIDENCE OF PHILIP MARK OSBORNE ON BEHALF OF THE CHRISTCHURCH
CITY COUNCIL**

27 AUGUST 2021

1. My full name is Philip Mark Osborne I have been requested by the Christchurch City Council (Council) to provide economic evidence on its proposed Plan Change 4 to the Christchurch City Plan (PC4).
2. My academic qualifications include Bachelor of Arts (History/Economics), Masters in Commerce, and a Masters in Planning Practice, from Auckland University. I have provisionally completed my doctoral thesis in developmental economics.
3. I have 18 years' experience providing economic advice for both local government throughout New Zealand and central government agencies. Areas of advice relevant to this evidence have included the potential economic impacts of public projects as well as the economic impacts in relation to industrial, commercial and residential land use issues and their influence on economic well-being.
4. I also provide consultancy services to a number of large private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and industrial market assessments, and forecasting market growth and land requirements across all property sectors.
5. Although this is a Council hearing, I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note and I agree to comply with it. I confirm I have considered all the material facts I am aware of that might alter or detract from the opinions that I express. I confirm this evidence is within my area of expertise, except where I state I am relying on the evidence of another person. I am authorised to give this evidence on behalf of the Council.
6. I was the principal author of the Property Economics report '*Property Economics (2020) Economic Advice on the Impacts of Home Share Accommodation*', dated January 2020 that is attached to the Council's original s42A report for PC4.
7. I am the principal author of the **attached** Property Economics report. I confirm that I complied with the code of conduct in preparing this report. The

documents that I considered in preparing the attached report are listed in that report and are also the briefs of evidence of Ms Hampson and Mr Bonis for PC4.

8. In terms of comparison the original 2020 report was designed to simply look at the potential for economic impacts resulting from, primarily, retail spend distribution stemming from the current geo-spatial market provision of HSA. This indicated the potential realisation of nominal economic benefits from increased consolidation (primarily around the CBD) of HSA around centres. At the time of this assessment Property Economics was not privy to Plan Change 4 nor did it consider other potential economic costs associated with changes to the status quo
9. While the initial report was not designed to specifically support PC4, the subsequent report undertaken by for this brief has considered the potential impacts of PC4 on the Christchurch HSA market. This report identifies a variety of potential economic costs and benefits (considered in light of the status quo baseline) and seeks to quantify and reconcile these impacts. The report provides for a by fulsome understanding of the potential market and economic impacts given the underlying assumptions.
10. My key conclusion in the attached cost benefit analysis is that there is not a compelling economic rationale for PC4.
11. Whilst I have comments to make on other economic evidence filed in this proceeding, I understand that I am to withhold any response to that evidence until I lodge rebuttal evidence.

27 August 2021



Philip Osborne

PROPERTY **E**ECONOMICS



ECONOMIC COST BENEFIT

ASSESSMENT

PLAN CHANGE 4

Client: Christchurch City Council

Project No: 51824

Date: August 2021



SCHEDULE

Code	Date	Information / Comments	Project Leader
51824.12	August 2021	Report	Phil Osborne

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1. INTRODUCTION

- 1.1.1 Over the past 10 years, the Home Share Accommodation (**HSA**) market (e.g. Airbnb, HomeAway) has exploded across the globe. When Airbnb activity was first recorded in the Christchurch District in June 2016, ChristchurchNZ estimated that Airbnb guests made up less than 1% of all accommodation guest nights. By the following year, this had climbed to almost 19% and by December 2019 HSA market share had reached an all-time high of around 27% of all guest nights¹. Although the HSA market has fallen in prominence following the COVID-19 lockdowns, it remains a significant part of the market and is expected to recover following the re-opening of the international borders.
- 1.1.2 Under Christchurch’s operative plan, unhosted guest accommodation (i.e. the owner is not occupying the residence for the duration of the stay) is classified as a discretionary activity for the vast majority of homes in residential zones meaning a resource consent is required. However, the Christchurch City Council has only received a few applications and for those it does receive, the existing policy framework is limited in its scope to approve them².
- 1.1.3 The Proposed Plan Change 4 (PC4) seeks to update Christchurch’s District Plan to provide a framework for managing HSA in Christchurch. PC4 includes amendments that introduce a new objective and policies on HSA and changes the activity status of residential visitor accommodation in Christchurch’s rural and residential zones. These activity statuses are applied based on the number of nights rented per year, the maximum number of guests and check-in and check out times.
- 1.1.4 The objective of this report is to identify and, where possible, quantify the extent of impacts of full enforcement of the Operative and PC4 plans on the existing HSA market and Christchurch’s wider economy. This Status Quo baseline assumes that HSA operates as a permitted activity (i.e. is not restricted by the plan) and for the purposes of the modelling is assessed on a pre-covid market (year ended February 2020).

¹ Refer Section 3.4

² Christchurch City Council, *Christchurch District Plan Change 4 Section 32 Evaluation, 2020, pg. 24-25*



This assessment is then used to provide recommendations on the suitability of PC4 as an HSA management option from an economic perspective.

1.2. INFORMATION & DATA SOURCES

1.2.1 Information has been obtained from a variety of what Property Economics consider to be reputable and reliable data sources and publications:

- Accommodation Survey – Statistics NZ
- Tourism Satellite Account – MBIE
- Home Share Accommodation Data – AirDNA
- Property Economics 2020 Report – Property Economics
- Airbnb Economic Contribution – Deloitte (2018)
- Christchurch and Canterbury Quarterly Economic Report March 2021– ChristchurchNZ
- Christchurch District Plan Proposed Plan Change 4 – CCC
- Christchurch District Plan Proposed Plan Change 4 Section 32 Evaluation - CCC

2. HOME SHARE ACCOMMODATION

2.1. BACKGROUND

2.1.1 Over the last couple of decades, the presence of HSA has grown exponentially to such an extent that cities across the globe are facing very real impacts in their local economies. While home share accommodation is thriving and allowed in many cities, numerous cities have begun to place restrictions and limitations on HSA to reduce the perceived externalities. These new policies have proven difficult to enforce with many homeowners attempting to avoid regulation including claiming Airbnb guests to be friends³.

2.1.2 Under Section 74(3) of the Resource Management Act 1991, the Christchurch Council is required to not give any consideration to trade competition or its effects in its district plan. However, just as was observed with the rise of Trade me businesses, HSA platforms can be used by operators who are essentially running a commercial business. This, therefore, raises the question as to whether the same regulations faced by formal accommodation providers (i.e. rates and zoning restrictions), should also be placed upon the largely unregulated HSA market (as exhibited by the existing environment), to what extent and to what end.

2.2. DEFINITION

2.2.1 Plan Change 4 (PC4) defines Hosted Visitor Accommodation as a residential unit where:

- i) at least one permanent resident of that residential unit is in residence in the residential unit for the duration of the stay;
- ii) individual bookings by visitors are for less than 28 days each; and
- iii) any family flat is not used for visitor accommodation

2.2.2 Hosted visitor accommodation in a residential unit includes a bed and breakfast.

2.2.3 Plan Change 4 (PC4) defines Unhosted Visitor accommodation in a residential unit as a residential unit where :

- i) no permanent resident of that residential unit is in residence in the same residential unit for the duration of the stay;
- ii) individual bookings by visitors are for less than 28 days each; and
- iii) any family flat is not used for visitor accommodation.

³ Property Economics (2020) Economic Advice on the Impacts of Home Share Accommodation, Section 2.6

- 2.2.4 Both Hosted and Unhosted Visitor Accommodation in a residential unit excludes hotels, resorts, motels, motor and tourist lodges, backpackers, hostels, farm stays and camping grounds.

2.3. PLAN CHANGE 4

- 2.3.1 This section is designed to provide a short overview of the proposed changes as they relate to potential economic costs and benefits.
- 2.3.2 Under the Operative District Plan, unhosted visitor accommodation is classified as a Discretionary Activity in Residential Zones. The exception to this is the Residential Central City Zone where unhosted visitor accommodation in homes smaller than 40sqm (i.e. studio and 1-bedroom units) is permitted but homes larger than 40sqm are non-complying⁴.
- 2.3.3 Additionally, the Operative District Plan provides a limited framework to enable the Council to approve HSA, even when the environmental effects are shown to be less than minor. PC4 introduces Objective 14.2.9 and Policy 14.2.9.1 which specifically address this. Essentially, these direct the management of visitor accommodation in residential zone so as to “minimise adverse effects on the residential character, coherence and amenity of the site” while also directing them to be consistent with other objectives such as the supply of housing, revitalisation of the Central City and protecting strategic infrastructure⁵.
- 2.3.4 The Council’s s32a for PC4 states that only a handful of resource consent applications have been received for unhosted visitor accommodation⁶. It showed that decisions on two of those applications were to decline the applications, despite the environmental effects being found to be less than minor. The Commissioner considered the applications to be inconsistent with the objective and policy framework for non-residential activities which seeks to: “restrict the establishment of other non-residential activities, especially those of a commercial or industrial nature, unless the activity has a strategic or operational need to locate within a residential zone, and the effects of such activities on the character and amenity of residential zones are insignificant.” The Commissioners on those two decisions noted that they were “troubled” by the outcome but felt that the existing policy framework for non-residential activities did not give scope to approve the applications. One of those decisions was recently successfully appealed to the Environment Court which noted that: “the plan provisions may not adequately respond to the demand for this activity.”
- 2.3.5 Under PC4, unhosted HSA is a controlled activity in all residential zones used for no more than 60 days during the year.
- 2.3.6 The matters over which Council reserves its control are:
- a. Provision of information for neighbours and guests, including contact information, parking restrictions, and, where appropriate, hazard information
 - b. Record keeping and provision of information to the Council

⁴ Under 14.6.1.4 D2, visitor accommodation is a Discretionary activity if over 40 m² and less than 201 m² and an employee is permanently resident. It is assumed that for unhosted HSA an employee would not be permanently resident.

⁵ Christchurch City Council (2020) Christchurch District Plan Proposed Plan Change 4, pg. 88

⁶ Ibid pg. 2

- c. Management of outdoor entertainment and recreation facilities
 - d. Management of solid waste disposal
 - e. Maintenance of the exterior of the property
 - f. Number and size of vehicles used by guests including large vehicles
 - g. Building access arrangements and wayfinding
- 2.3.7 If, however, an HSA provider wants to rent out their home for longer than 60, they can apply for a discretionary consent. Under the notified version of PC4, use of a residential property as visitor accommodation for more than 180 days per year is classified as non-complying (by default). Following the initial draft of this report being provided to the Council, the council's planner indicated to Property Economics that a potential amendment to PC4 is the removal of this 180-day limit (such that the activity will remain discretionary up to 365 days per annum. Property Economics has considered both the notified PC4 and this potential amendment.
- 2.3.8 Property Economics have relied upon AirDNA data to quantify the size and geospatial distribution of the HSA market. Of the estimated 1,985 listings that were identified as operating as a HSA business in Christchurch during the year ended February 2020 and were located in Residential Zones, approximately 848 were rented for 60 days or less, 788 were rented for between 60 and 180 days, and 349 listings were rented for over 180 days.
- 2.3.9 Additionally, PC4 introduces the following activity-specific standards to visitor accommodation as a Controlled activity:
- a. A maximum of six guests to be accommodated at any one time.
 - b. Check-in and check-out times shall not be between the hours of 22:00 pm to 06:00 am.
 - c. Guests shall not hold functions or events on the site where the number of additional attendees exceed the number of paying guests staying overnight.
- 2.3.10 Visitor accommodation in the Rural zones is also limited to a maximum of six guests at any one time in order to be classified as a Permitted Activity. Some of the exceptions to this include activities located in the Airport Noise Contours which is limited to four guests and Visitor accommodation as an accessory to farming which has a maximum of ten guests in the Rural Urban Fringe Zone.
- 2.3.11 Any hosted or unhosted visitor accommodation that wishes to offer their property to groups larger than six, may instead apply for a Discretionary consent to raise this maximum. In the Residential zone a Discretionary consent can grant an activity the right to have up to twelve guests while there is no upper maximum criteria for the Rural zone.

3. HOME SHARE ACCOMMODATION MARKET

3.1. SECTION OVERVIEW

- 3.1.1 This section provides a high-level overview of the 'active' HSA market over the last five years (June 2016 – March 2021) to better understand the contextual basis for PC4. It should be acknowledged however that the HSA market has the potential to be volatile with properties entering and exiting the market relatively easily, due to changing market conditions or changing circumstances for the owner.
- 3.1.2 A temporal perspective of the HSA market since its widespread emergence approximately 5 years ago⁷ is assessed to provide higher-order market trends. The data provides key insights into the movement of guest numbers, capacity, and occupancy trends in the HSA accommodation sector, as well as distribution of the HSA accommodation provision across the city.
- 3.1.3 All data on HSA is obtained from AirDNA which collects data from HSA websites like Airbnb and BookaBach. Property Economics considers the AirDNA data to be the most reliable and accurate source of information on Christchurch's HSA market available.⁸ Excluded from this dataset is any listing that has been labelled as Formal Accommodation including Bed and Breakfast, Hostel and Boutique Hotel listings and any accommodation in a residential unit not available on the major HSA websites.

3.2. NUMBER OF LISTINGS

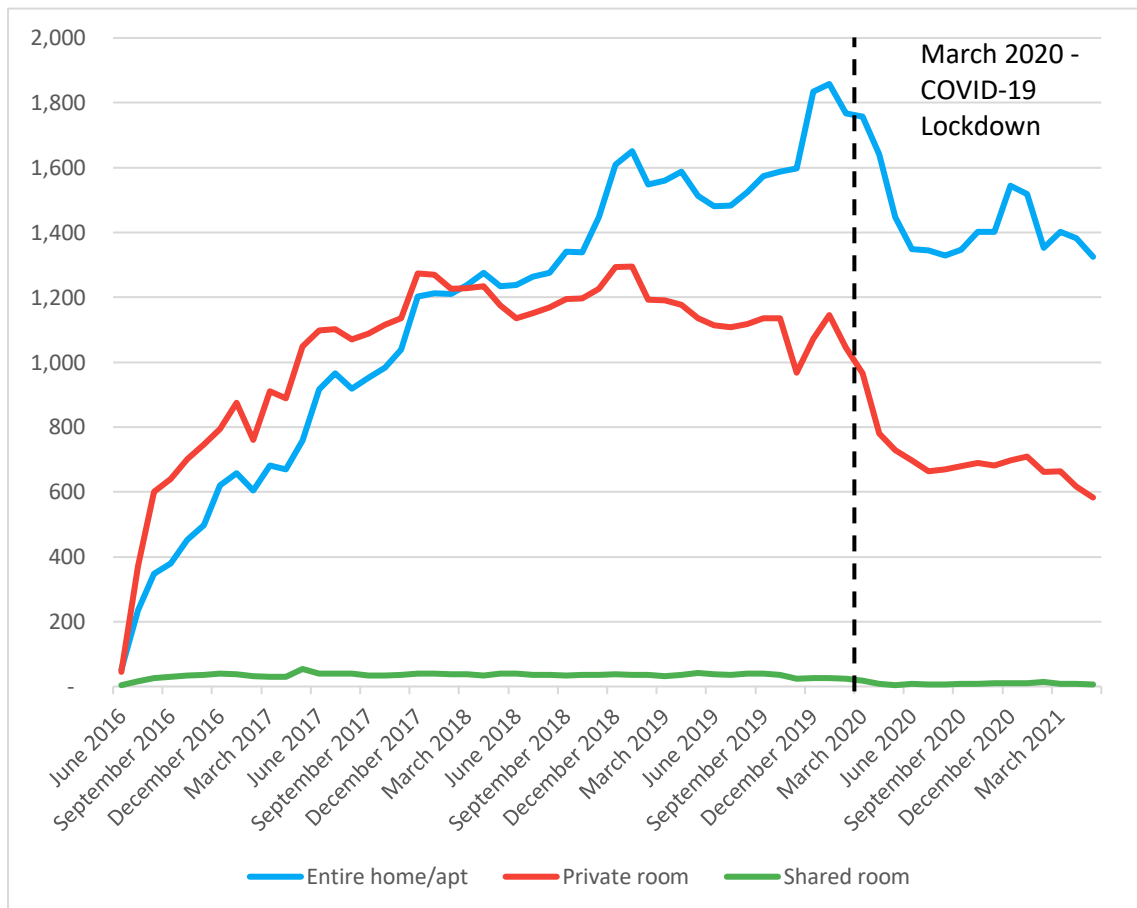
- 3.2.1 Figure 1 illustrates the growth in active HSA listings by type between June 2016 – May 2021. This shows the rapid growth in the supply of HSA providers leading up until the March 2020 lockdown.
- 3.2.2 Private Room listings grew the fastest at the start of the period reaching close to 1,300 listings by December 2017. Since then, the number of private room (considered to be hosted HSA) listings stagnated and slowly declined following the December 2018 peak. In comparison, the number of Entire home / apt listings continued to grow each year up until the market was hit by the demand shock (COVID-19 lockdown) in March 2020. The smaller decrease pre-Covid is reflective of the seasonal impact similar to that seen in the previous year.
- 3.2.3 As the New Zealand border remains closed to all but a few countries, the recovery of tourism to its pre-covid levels will be uncertain for some time. The number of Entire Home / apt listings in February 2021 was down 415 or 25% from the number of listings in February 2020. The number of Private rooms, which had already fallen by about 200 listings in January 2020, quickly dropped by a further 200 dwellings. The number

⁷ Airbnb reported only a few HSA listings up till 2016

⁸ Airbnb have discredited AirDNA data on the basis that it has limited ability to infer the difference between blocked and booked days. AirDNA claim they have been peer-reviewed by CBRE which found their data to be 96.2% of the revenue earned by short term rental hosts. <https://www.airdna.co/airdna-data-how-it-works>

of Shared Room listings has remained relatively constant at around 800 listings since June 2020. This is the number of listings that the Private room market exceeded by the second half of 2016.

FIGURE 1 – NUMBER OF HOME SHARE ACCOMMODATION LISTINGS



Source: Property Economics, AirDNA

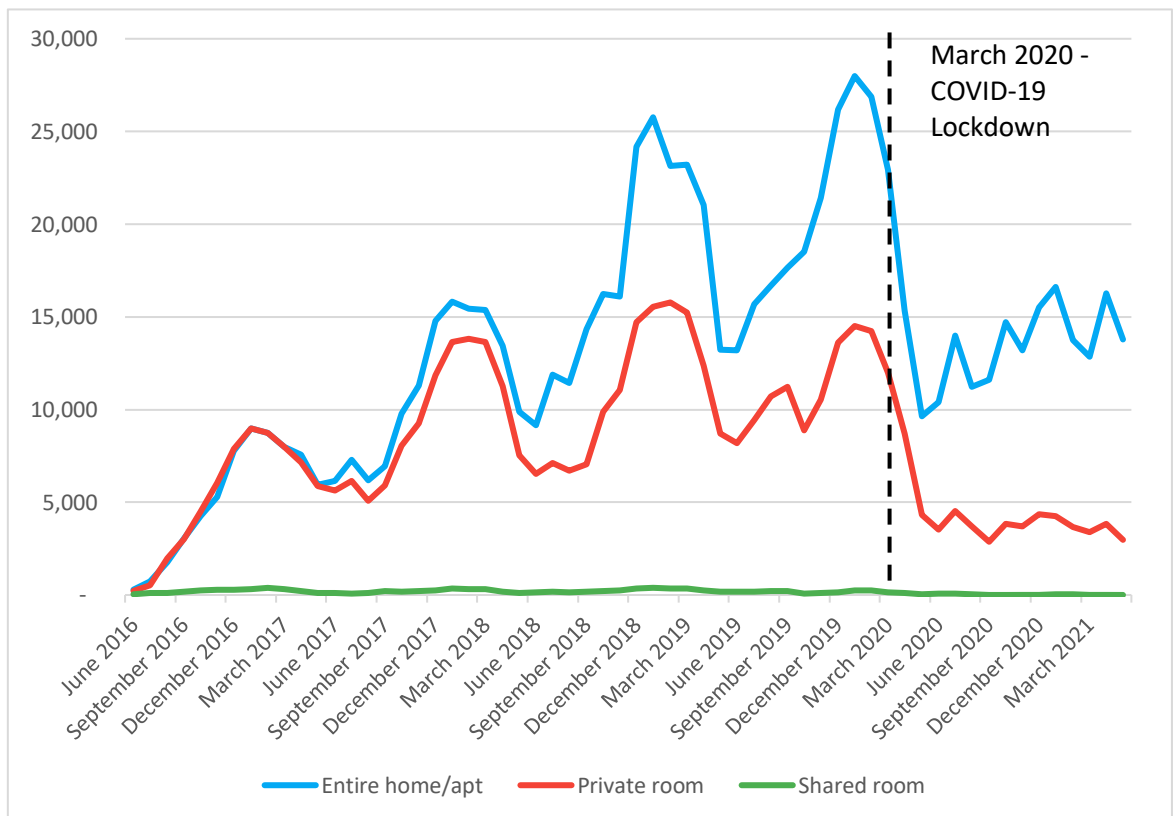
3.3. RESERVATION DAYS

3.3.1 Figure 2 shows the number of reservation days by listing type between June 2016 and March 2021. The seasonal nature of the accommodation industry and the impact of the COVID-19 market shock is more pronounced in Figure 2. Figure 2 shows that the summer peak in reservation days for Entire home / apt listings in 2020 was about 3,000 higher than it was in 2019. In response to the COVID-19 lockdown, the number of reservation days dropped from the high of around 25,000 to 10,000 by May 2020. The peak number of reservation days in 2019 was consistent with the seasonal changes experienced in the previous 2

years (and with commercial accommodation in general) and there was nothing in his data to suggest that the growth of HSA would not have continued (seasonally adjusted) were it not for Covid 19.

- 3.3.2 In the Private Room listings, the summer peak dropped between 2019 and 2020 before further dropping to an average of 5,000 reservation days across the 2020 – 2021 year. Unlike the Entire home / apt listings, Private room bookings have shown no signs of recovery.

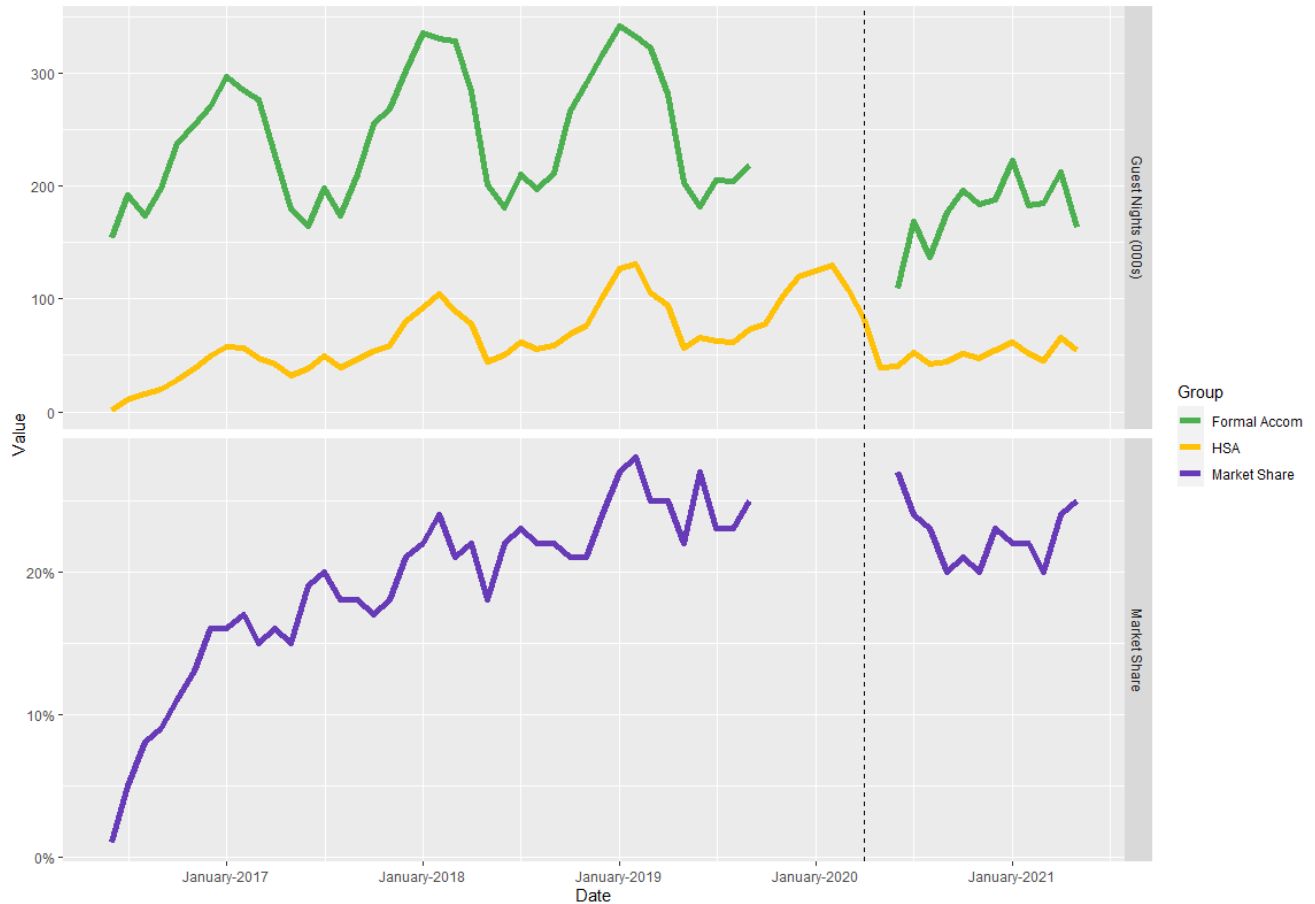
FIGURE 2: HOME SHARE ACCOMMODATION NUMBER OF RESERVATION DAYS



Source: ChristchurchNZ, Property Economics, AirDNA

3.4. GUEST NIGHTS AND ESTIMATED MARKET SHARE

- 3.4.1 Figure 3 following compares the number of guest nights in the formal accommodation sector with that of the entire HSA market (i.e. includes both hosted and unhosted HSA). The top graph shows the actual number of guest nights (in thousands) while the bottom graph shows the associated market share of HSA as a proportion of the total guest nights.

FIGURE 3 – HSA PROPORTION OF TOTAL ACCOMMODATION GUEST NIGHT DEMAND


3.4.2 Statistics New Zealand ended the Accommodation Survey in November 2019 which historically provided the data on guest nights. The Ministry of Business, Innovation and Tourism has now partnered with Fresh Information Limited to develop the Accommodation Data Programme which was launched in June 2020. Hence, Figure 3 shows a break in the data where accommodation data is not available. Note that the Accommodation Data Programme uses a different methodology to that of the Accommodation Survey although the impacts of COVID-19 hide any discrepancies.

3.4.3 The guest nights for HSA were obtained from ChristchurchNZ Quarterly Report⁹.

3.4.4 Although the Formal Accommodation sector experienced growth between 2016 – 2019, this growth was outpaced by the rise of the HSA sector. As a result, HSA market share (as measured by the number of guest nights) has rapidly increased over the last few years, peaking at 30% during August 2019. As the formal accommodation guest nights from October 2019 onwards is not available, we do not know whether this figure continued to climb (as the trend would have predicted), stayed constant or decreased leading up to the March 2020 COVID-19 lockdowns.

3.4.5 In the new data set from June 2020 onwards, it is observed that the Formal Accommodation sector in Christchurch appears to have recovered at a faster rate than the HSA market, this may be the result of a decrease in available capacity as uncertainty in the visitor market has led to the conversion of properties

⁹ ChristchurchNZ (2021) Christchurch & Canterbury Quarterly Economic Report March 2021, pg 7

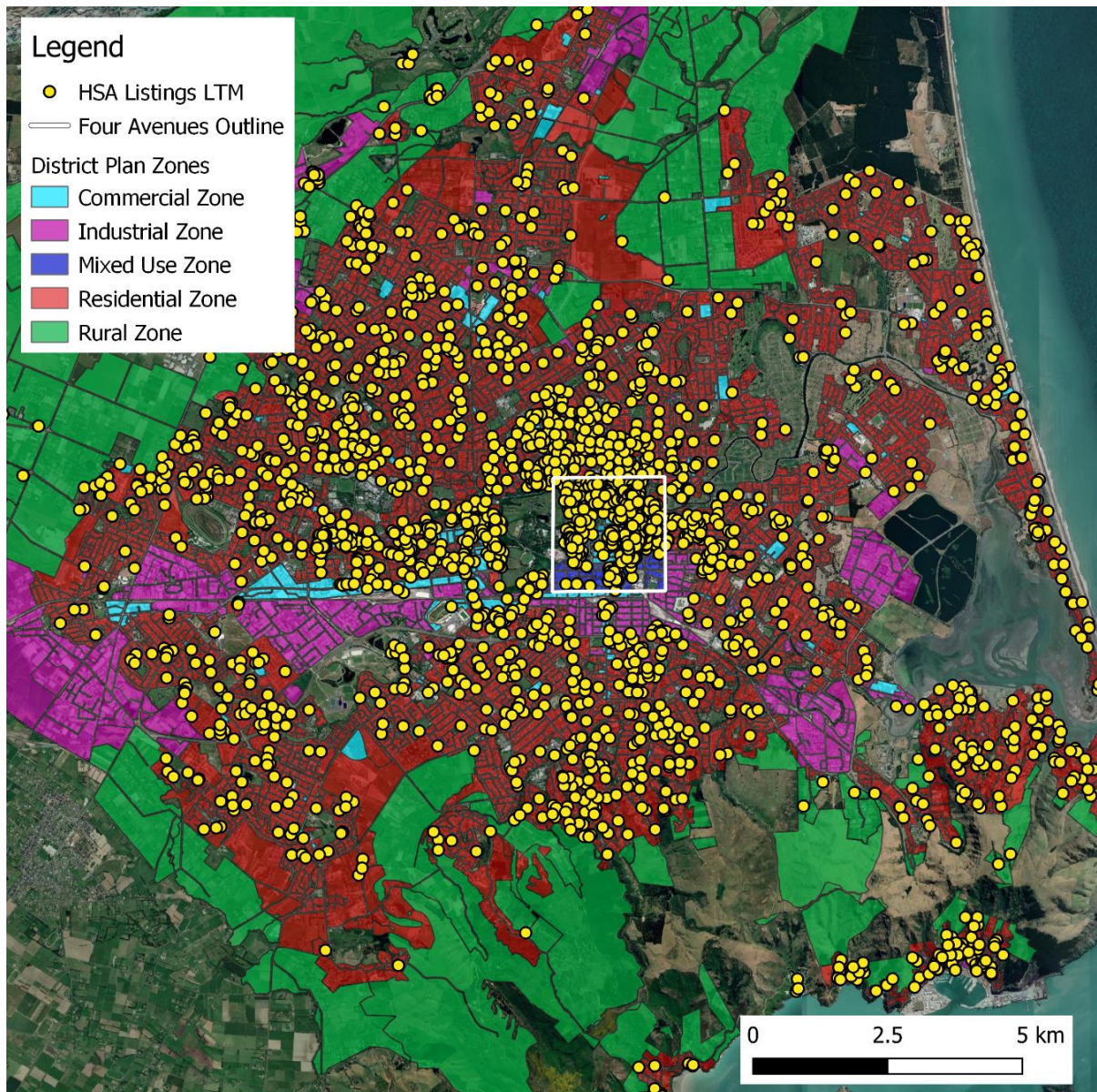


back to longer-term rentals or simply removed from the market, as indicated by Figure 1. This has caused the HSA market share to drop back down to below 25%. This also may be due to the government using formal accommodation providers as managed isolation facilities for residents and visitors arriving in New Zealand.

3.5. ZONING OF HOME SHARE ACCOMMODATION

3.5.1 One of the primary objectives of this report is to assess the size of potential impacts resulting from full enforcement of proposed PC4 and Operative District Plan regulations on the existing (or ‘active’) HSA market. To achieve this, it is important to first establish the size of the HSA market and the proportion that lies within zones likely to be affected. Figure 4 shows a map of Christchurch City, the location of HSA listings that were active over the last 12 months and the underlying zone group.

FIGURE 4: MAP OF HSA LISTINGS AND UNDERLYING ZONE GROUP



Source: Property Economics, AirDNA, CCC

3.5.2 Airbnb hides the exact location of the property on their site by placing the marker randomly in a 150m radius from the site. This means the locational data has inherent randomness that distorts the results by

placing properties in parks, on roads and in industrial areas. To clean the data from abnormalities, Property Economics connected each listing to the closest Commercial, Rural, Mixed Use or Residential Zone.

- 3.5.3 Table 1 breaks down the zone distribution of Entire Home / Apt HSA listings. This includes all active and non-active listings for the purposes of identifying the distribution by zone and distinguishes listings located within the Four Avenues. About 82% of all Entire Home / Apt listings were in the Residential Zone. Additionally, it is noted that almost 13% of these are located in the City Centre.

TABLE 1: ENTIRE HOME / APT LISTINGS BY ZONE

	Suburbs	City Centre	Total
Commercial Zone	159	186	345
Mixed Use Zone	16	130	146
Residential Zone	3,268	471	3,739
Rural Zone	328		328
Total	3,771	787	4,558

Source: Property Economics, AirDNA, CCC

3.6. HSA LISTINGS GROUPED BY ANNUAL RESERVATIONS CATEGORIES

- 3.6.1 Table 2 shows the number of Entire Home / Apt (Unhosted) listings by the number of days the property was occupied during the year. For the year ended February 2020 (i.e. just before COVID-19 Lockdown), an estimated 1,038 listings were booked for less than 60 days, 984 listings were booked for between 60 – 180 days and 430 listings were booked for over 180 days.

TABLE 2: NUMBER OF ENTIRE HOME / APT LISTINGS BY RESERVATION DAY CATEGORY

	2017	2018	2019	2020	2021
Less than 60 days	440	667	944	1,038	1,155
60 - 180 Days	267	473	761	984	735
Over 180 days	11	213	349	430	259
Total	718	1,353	2,054	2,452	2,149

Source: Property Economics, AirDNA, CCC

- 3.6.2 The potential impact of PC4 can also be examined in relation to the number of guest nights. Table 3 shows the number of Guest Nights for Entire Home / Apt listings in the Residential Zone. Although the number of properties that were rented for more than 180 days was only about 18% of all listings, these properties hosted an estimated 310,967 guest nights during the year ended February 2020. This is equivalent to 42% of all Entire home / apt guest nights in the Residential Zone and 29% of all HSA guest nights (including Private and Shared rooms).

TABLE 3: NUMBER OF GUEST NIGHTS FOR ENTIRE HOME / APT LISTINGS

2017	2018	2019	2020	2021
------	------	------	------	------



0 - 60 Days	35,832	47,669	81,031	88,473	94,165
60 - 180 Days	79,567	155,551	271,795	343,378	247,845
Over 180 days	7,307	138,828	227,566	310,967	175,866
Total	122,706	342,048	580,392	742,818	517,876

Source: Property Economics, AirDNA, CCC

3.6.3 Finally, Table 4 summarises the number of Entire Home / Apt Listings by reservation day category and underlying zone. This enables us to further quantify the impacts of PC4.

TABLE 4: NUMBER OF ENTIRE HOME / APT LISTINGS BY RESERVATION DAY CATEGORY AND ZONE FOR THE YEAR ENDED FEBRUARY 2020

	Residential Zone	Rural Zone	Commercial or Mixed-Use	Total
Less than 60 days	849	81	108	1,038
60 - 180 Days	792	98	94	984
Over 180 days	357	19	54	430
Total	1,998	198	108	2,452

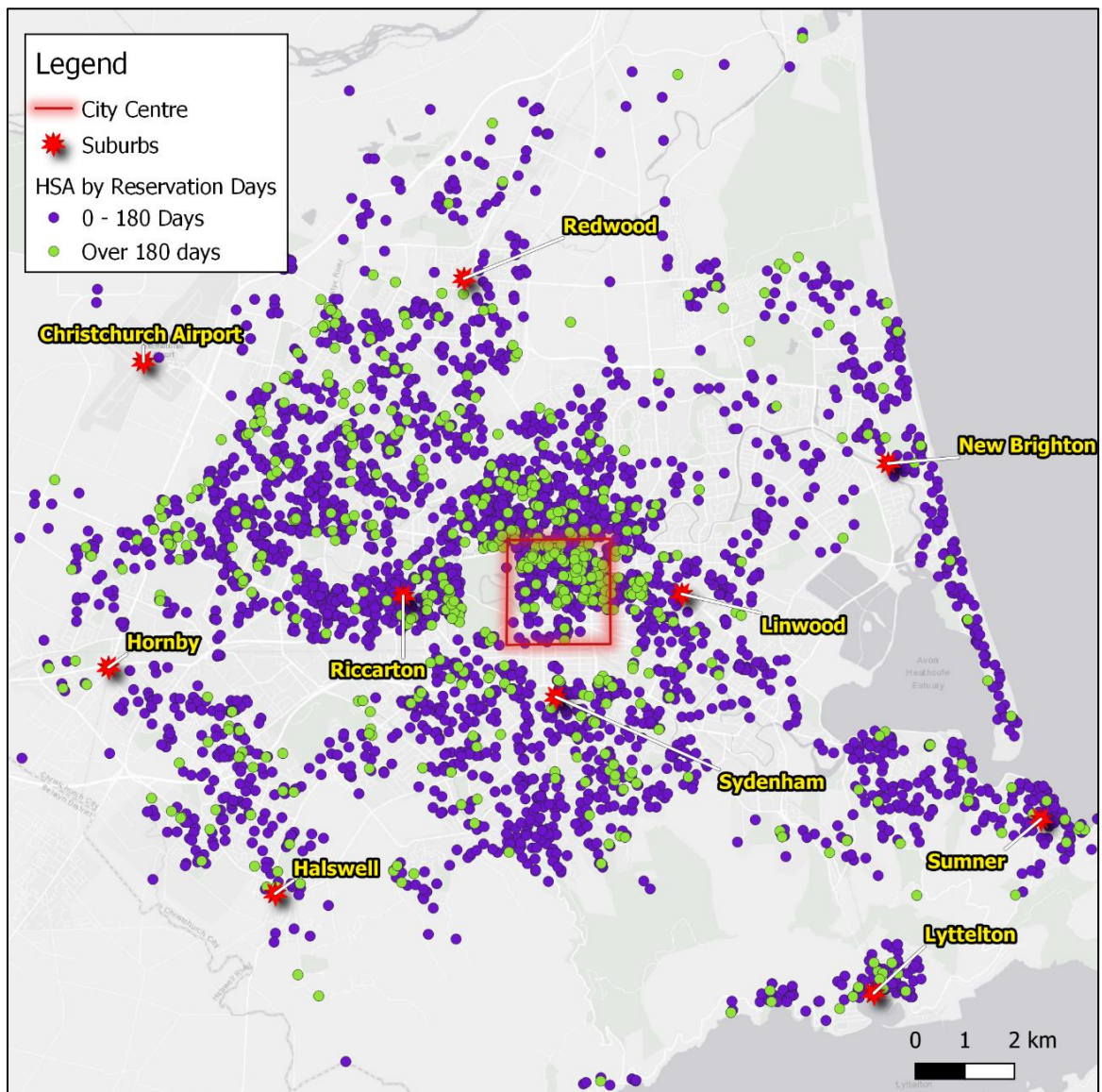
Source: Property Economics, AirDNA, CCC

3.7. DISTRIBUTION OF OVER 180 DAY LISTINGS

3.7.1 To assess if there was any pattern to the listings that are were more or less attractive to the HSA market, this section geospatially maps the distribution of properties that achieved over 180 rented days. This 180-day limit was chosen based on the notified PC4 regulations.

3.7.2 Figure 5 maps the location of all HSA listings, distinguishing between those that exceeded 180 days during the year ended February 2020 and those that were rented for 180 days or less.

FIGURE 5: MAP OF HSA LISTINGS AND UNDERLYING ZONE GROUP




























Source: Property Economics, AirDNA, CCC

3.7.3 Two key factors influence how long a property is rented for in the market. Firstly, a successful HSA listing needs to be attractive both in the quality of the property and the location. Secondly, properties that are on the market for longer will naturally be expected to be rented for a greater number of days. The AirDNA

data showed that properties rented for more than 180 days during the year ended February 2020 were available on the market for twice as long (on average) as properties rented out for less than 180 days or less.

- 3.7.4 Additionally, Table 5 summarises the number of Entire Home / Apt Listings by reservation day category and underlying zone. Not only does this enable us to further quantify the effects of PC4 (in regards to the activity status), but also whether the 'Over 180 days' listings are disproportionately located within the Central City.

TABLE 5: OVER 180 LISTINGS PROPORTION BY ZONE

	Over 180 days	Total
Commercial and Mixed-Use Zones	 21%	256
Commercial Banks Peninsula	 13%	39
Commercial Central City Business	 33%	92
Commercial Core	 24%	33
Commercial Local	 8%	13
Commercial Mixed Use	 0%	7
Commercial Central City (South Frame) Mixed Use	 0%	10
Commercial Central City Mixed Use	 16%	62
Residential Zone	 18%	1,998
Residential Banks Peninsula	 11%	188
Residential Central City	 21%	253
Residential Guest Accommodation	 35%	20
Residential Hills	 13%	156
Residential Large Lot	 14%	14
Residential Medium Density	 22%	436
Residential New Neighbourhood	 16%	19
Residential Small Settlement	 3%	61
Residential Suburban	 18%	667
Residential Suburban Density Transition	 17%	184
Rural Zone	 10%	198
Rural Banks Peninsula	 5%	146
Rural Port Hills	 50%	6
Rural Urban Fringe	 21%	43
Rural Waimakariri	 0%	3
Grand Total	 18%	2,452

Source: Property Economics, AirDNA, CCC

- 3.7.5 The zone group with the highest proportion of over 180 listings is the Commercial and Mixed-use Zones at 21% however this was not significantly higher than that of the Residential zone for which 18% of listings



were rented for more than 180 days. The Commercial and Mixed-Use zones also represent only a small proportion (10.4%) of the total HSA market.

- 3.7.6 Although the average for the Residential Central City and Medium Density zones (residential around centres and CBD) was slightly higher than the rest of the Residential zones, the difference only equated to 3-4%.
- 3.7.7 Consequently, only approximately half of the professional HSA operators (those who rent out their property for more than 180 days) were located in either Commercial or the identified Central City Residential zones. The remaining listings are all located in either rural or suburban areas.

4. POTENTIAL ECONOMIC IMPACTS OF HSA

4.1. SECTION OVERVIEW

4.1.1 There are a number of potential economic impacts that arise from Home Share Accommodation, including:

Potential economic benefits:

- Increase in overall tourism
- Increased supply elasticity in the short-term accommodation market
- Increased choice and competition in the market
- Resident Income

Potential economic costs:

- Redistribution of retail expenditure away from the CBD
- Volatility of Housing Stock
- Increase in wealth inequality
- Impact on house and rental prices
- Impacts on investment and Equitable Competition

4.1.2 This section discusses and explains the rationale behind each of these potential impacts on a generalised basis. This informs the following sections which assess the likely impact on Christchurch's economy specifically. Importantly, this section relies on the Literature Review published in Property Economics' 2020 report¹⁰. Also note that in many instances this section refers to Airbnb due to it being the subject matter of the research papers including Airbnb's own statistics. However, the information pertaining to Airbnb is assumed to be directly attributable to all forms of HSA.

4.2. POTENTIAL ECONOMIC BENEFITS OF HSA

Impact on the Tourism Market

4.2.1 Airbnb has published several articles over the past decade advertising and emphasising the economic benefits of Airbnb. One such report from Deloitte Access Economics which examined the impacts of Airbnb on New Zealand¹¹ stated that during 2017, Airbnb guests spent \$781m, supported 6,006 jobs and contributed \$660m to GDP.

4.2.2 However, identifying this as a 'unique' economic contribution potentially overstates the economic contribution of Airbnb to New Zealand's tourism economy by ignoring any redistribution of spend. Most of this expenditure is likely to occur without Airbnb, as other accommodation alternatives exist in the market.

¹⁰ Property Economics (2020) pg. 14-26

¹¹Deloitte Access Economics (2018) Economic effects of Airbnb in New Zealand. Retrieved from: <https://news.airbnb.com/wp-content/uploads/sites/4/2018/05/dae-economic-contribution-Airbnb-new-zealand.pdf>

It is only the net additional expenditure (or potentially net loss) that should be considered in evaluating the benefit of HSA. Additionally, it should be noted that Property Economics does not consider any additional non-accommodation expenditure that is the result of visitors saving money on accommodation to be a net gain to the local economy. Rather, it represents a redistribution of expenditure between sectors (although it does need to be noted that different sectors exhibit differing contributions to value-added GDP).

- 4.2.3 The Literature Review included in the previous Property Economics report contained several articles describing evidence supporting the view that Airbnb guests are spending more on non-accommodation goods and services in cities overall. In most instances, Airbnb guests spent less on average per day, but more overall because they stayed longer¹². However, this evidence in isolation fails to prove the guests spending more is a direct result of Airbnb (or other forms of HSA) as an accommodation option.
- 4.2.4 Part of the differences in the spending patterns between Airbnb (HSA) and Formal Accommodation guests can be explained by the disparities in the underlying demographic. For example, studies have shown that HSA guests are disproportionately more likely to be tourists while business travellers are more likely to use formal accommodation¹³. For example, HSA platforms often attract larger family groups that want to stick together and have access to a full kitchen rather than being split across multiple hotel or motel rooms.
- 4.2.5 The literature review identified two studies involving surveys of Airbnb guests. In the first study¹⁴, 2.3% of respondents said they went on a trip they would not have otherwise taken because of Airbnb. In a different, larger study by Morgan Stanley (Stanley, 2015), 4% of respondents made the same claim. Additionally, in the first report, 26.5% of respondents say they stayed longer because of Airbnb while 0.8% of the sample said they stayed for fewer days because of Airbnb.
- 4.2.6 This survey did not answer the question as to how much longer these guests were staying because of Airbnb. Although Airbnb provided statistics do show Airbnb guests stay longer on average than Formal Accommodation guests (by upwards of twice as long in some cases), the above results suggest this is heavily influenced by the difference in demographics, rather than the existence of Airbnb.
- 4.2.7 Assuming that 4% of the HSA visitors would not have visited in absence of HSA options and that 26.5% of HSA visitors stayed 25% longer, then we would estimate that only 10.6% of the guest nights (and by extension expenditure) was net additional due to HSA.

Increased supply elasticity in the short-term accommodation market.

- 4.2.8 The potential capacity and fluidity represented in the housing market for the HSA sector means the accommodation market has the potential to be more responsive to demand (beyond levels of capacity within the commercial accommodation market). This is demonstrated by the seasonal nature of the listings shown in Figure 1. Historically, when tourism numbers in the city are high, the formal accommodation

¹² *Property Economics (2020), pg. 15*

¹³ *Ibid pg. 17*

¹⁴ *Guttentag, D. A., & Smith, S. L. (2017). Assessing Airbnb as a disruptive innovation relative to hotels: Substitution and comparative performance expectations. International Journal of Hospitality Management, 64, 1-10.*

market would offer peak season pricing. Research has shown that the ability of the formal accommodation sector to do this, has been tempered by the HSA market¹⁵.

- 4.2.9 From a fundamental economics perspective, HSA results in greater elasticity in the supply curve. This means that changes in demand have the potential to result in a diminished effect on price, and a greater impact on the quantity supplied (i.e. guest nights). Theoretically, the introduction of HSA to the short-term accommodation market will result in an increase in the number of guest nights during peak seasons based on this elasticity. This would ultimately depend on the extent to which the local market was capacity constrained during the peak seasons¹⁶.

Increased choice in the Short-Term Accommodation Market

- 4.2.10 The provision of any additional options or choices in the market will enable consumers to make more optimal consumption decisions that are at least equal to or better than their current options. By picking HSA over formal accommodation options, consumers are expressing their weak preference (at least as good as) for HSA over formal accommodation.
- 4.2.11 As is discussed in the 2020 Literature Review, studies have shown several key reasons that consumers choose HSA over formal accommodation. This includes those motivated by the novelty of HSA, benefits of renting an entire home such as spaces for larger groups of people, and those motivated by the desire for interaction with hosts.

4.3. POTENTIAL ECONOMIC COSTS OF HSA

Impacts on the Housing Market

- 4.3.1 The Literature Review identified substantial international research supporting a positive correlation between HSA supply and prices in the housing market¹⁷. The shift of homes from the long-term rental market to HSA, reduces the supply of homes available, both for purchase and rental, resulting in (upward) pressure on the price level. While some homeowners use HSA as a means to support mortgages, this is offset by the rise in prices and is a disadvantage to those who do not.
- 4.3.2 Ultimately house prices are highly dependent on the overall supply of and demand for housing within a city. This is to say that any housing demand from the short-term accommodation sector will add to the demand from the long-term accommodation market to form overall dwelling demand. Consequently, *ceteris paribus*

¹⁵ *Property Economics (2020), pg. 19-20*

¹⁶ *The year ended 2019 Accommodation Survey illustrated an average 56% occupancy rate over this year that peaks in January at approximately 75%.*

¹⁷ *Property Economics (2020) pg. 21-22*

(all other things being equal) the existence and growth of unhosted HSA will place upward pressure on house prices and cost of rental accommodation, thereby impacting on the affordability of Christchurch City.

4.3.3 This is also true to a lesser extent for hosted HSA. Where homeowners may otherwise subsidise their housing costs with flatmates or living in smaller homes, renting out spare rooms as short-term accommodation removes that room from the long-term housing market. As such, it will decrease the supply of long-term housing and have an impact on the housing market.

4.3.4 Some of the economic costs of rising house prices include:

- A reduction in population migration,
- An increase in income/wealth inequality, and,
- Reduced discretionary income by raising mortgages and rents, thereby impacting other forms of spending.

4.3.5 These inflationary pressures on the housing market are expected to be greater in the short run as the increased residential demand is expected to be met in the long run with additional supply. In economics, the short-run refers to the period in which at least one input is fixed. In this instance, it refers to the lag time between the demand exhibiting itself in the market, and the homes being built. Anecdotal evidence from CCC has already reported a number of both new developments and homes for sale which have been advertised as home share investment opportunities.

Volatility of Housing Stock

4.3.6 Theoretically, one of the risks of overinvestment in residential properties is a resulting market correction. Investment properties are typically the first to sell when the market worsens and hence a substantial increase in the construction of homes to support the HSA market may result in the Christchurch economy becoming more susceptible to movements in the tourism sector.

4.3.7 The COVID-19 border lockdown is a practical example of potential shocks to the tourism industry. As was discussed in this article from [Stuff.co.nz](#)¹⁸ Trade Me saw the proportion of fully furnished rental options double post-COVID-19 Lockdown, with many offering short six-month leases. However, the impact on Christchurch's rental and housing market appears to have been muted at best, likely due to the strong demand pressures fuelled by low-interest rates.

Redistributed Spending

4.3.8 Given the uncontrolled distribution of HSA (the existing market in Christchurch does not comply with the District plan), one economic impact is the potential for retail spending redistribution away from the Christchurch CBD. The pertinence of this assessment relates to the Christchurch District Plan. Objective

¹⁸ [Rental market 'flooded' with former Airbnb properties | Stuff.co.nz](#)

15.2.2 'Centres-based framework for commercial activities, supports intensification within centres, identifying their critical importance to the local economy and gives primacy to the Christchurch Central City.

4.3.9 This was investigated in detail in the Property Economics 2020 report¹⁹. In this report, Property Economics attempted to model the extent to which retail expenditure is redistributed away from the CBD to other centres in Christchurch due to HSA typically being located further away from the centre. The results of this modelling estimated that Christchurch CBD is potentially losing \$15m in retail expenditure annually, assuming this is not offset by an increase in tourism expenditure from HSA. By applying reasonable assumptions on the increase in tourism expenditure from HSA this loss in spend was reduced to \$7m. In the context of Christchurch's CBD total retail market of close to \$1billion, this impact was assessed to be minor.

Impact on Investment and Equitable Competition

4.3.10 The construction of new homes to satisfy the additional demand from the HSA sector is an economic benefit in that it brings additional activity to a city. However, as the HSA sector captures most of the custom from the formal accommodation sector, it is likely we will see a commensurate (and potentially greater) decrease in investment in the formal accommodation sector.

4.3.11 As was found in Property Economics 2020 Report, Christchurch lost several of its hotels during the 2011 Canterbury Earthquakes and is yet to fully recover. Due to the flexible nature of the HSA market, with few upfront investment costs (to 'convert' properties) and the ability to locate over a much wider area of the City than hotels are permitted to locate (contrary to Christchurch's District Plan), HSA is able to compete directly with the commercial accommodation market. A fully permitted environment for HSA (as is exhibited by the current environment) results in a market that is inherently 'unbalanced' in terms of regulatory costs and requirements. Anecdotal evidence suggests the increased competition from HSA in Christchurch has contributed to a slower recovery and reduced investment in the formal accommodation sector.

4.4. SUMMARY

4.4.1 Economic theory would suggest the free market results in the most efficient allocation of resources due to the ability for suppliers to enter or exit the market at will. The transient nature of the HSA market reflects the relative freedom and low barriers to entry that enables HSA operators to enter the market on a temporary and flexible basis.

4.4.2 However, the potential issue arising from a free market is that it does not take into account the costs (or benefits) born by those outside of the market (externalities). For example, the District Plan is used to control the proliferation of noisy industrial activities that would otherwise cause significant negative impacts on the residential environment in a free market situation.

4.4.3 Based on the results above and the previous literature review, there is a mixture of both economic costs and benefits that are associated with HSA. Therefore, any assessment needs to consider the potential level

¹⁹ Property Economics (2020) Section 4

of these costs in the Christchurch context and the ability for regulation to address these without significantly impacting on the benefits of HSA.

- 4.4.4 The regulations and consenting requirements that will be introduced through PC4 (as opposed to the current 'active' permitted and discretionary thresholds) place additional costs on HSA suppliers. Even Controlled activity consent for infrequent HSA or short term HSA (for less than 60 nights per year in residential zones) has the potential to set them back several thousand dollars. The actual costs will ultimately depend on the process set out by the Council in approving these consents while a hosts willingness to accept these costs is relative to the revenue they expect to receive. For example, there is a difference in the willingness of Queenstown HSA hosts to apply for a consent when they can achieve significantly higher daily rates than Christchurch hosts. Placing a search on Airbnb for rental options for 5 guests over the first week of January 2022 showed several options in Queenstown ranging from \$500 to upwards of \$2,000 per night. In comparison, the options shown in Christchurch ranged from \$200 to \$500 per night.
- 4.4.5 Even though consent for controlled activity applications must be granted, the scope for controls to be imposed through conditions of consent imposes some degree of costs and a barrier to entry that may deter some. A discretionary consent requirement for HSA for more than 60 nights and the potential for public notification will create a high level of uncertainty about the time and cost of obtaining consent, even if in practice such applications stand a reasonable likelihood of gaining consent eventually. These time costs and uncertainty act as a barrier to entry in a market that is otherwise relatively free. Not only is it harder to enter the market, but those that do obtain consent will be less willing to leave due to the 'Sunk Cost Fallacy'²⁰ (barrier to exit).
- 4.4.6 Consequently, full enforcement of PC4 is likely to have a significant impact on the supply elasticity of the short-term accommodation market relative to the current unconstrained environment. The extent to which this will result in a reduction in tourism, however, is dependent on the extent to which overall supply and choice are impacted in the market. There is the potential for PC4 to have no impact on tourism where the resulting supply is sufficient to meet demand. An assessment of these impacts is the subject of the modelling exercise in the following sections.
- 4.4.7 In terms of economic benefits, both the Operative and PC4 provisions provide a competitive advantage to HSA properties within most Commercial Zones over those in residential zones. However, compliance with these plans (in opposed to the non-compliant current environment) will not strictly result in more HSA closer to the City Centre. The proportional impact is likely to be minimal at best without any further

²⁰ Behavioural Economists have found humans are irrationally reluctant to cut their losses. Rather than assessing the viability of an endeavour on the basis of the future costs and benefits, there is a tendency for humans to not want to waste the investment or sunk costs. In this instance, HSA operators are less likely to leave the market if they have gone through an expensive consenting process.



regulations that would direct HSA towards the CBD such as a more permissive environment in the Central City Residential zone.

- 4.4.8 As identified in the previous report²¹, the potential for HSA regulation to impact upon the housing market, in general, is limited. Although this form of rental property provides for an additional source of increased revenue for homeowners, therefore supporting greater levels of demand (from the investment market), it is unlikely the extent of the market (approximately 1.3% of the housing stock) will result in material impacts on price or the availability of longer-term rentals. In terms of the distribution of this impact, there are clearly areas in which the proportion of HSA product is considerably higher than the district average (e.g. Akaroa). In these cases the argument could be made that this level of market influence could materially impact price and availability in some locations, however, the 'holiday' nature of these areas are more likely to result in these properties remaining empty for personal use if the growth of HSA were to be deterred in these areas by strong regulations. Under a less restricted regulation scenario, the provision of additional income from HSA may support ownership and it also supports a more efficient use of housing stock.
- 4.4.9 The additional costs faced by HSA providers will likely result in a more equitable environment in the Short-Term Accommodation market. This may improve Formal Accommodation providers ability to compete with HSA and thereby raise investment in this sector.

²¹ *Property Economics (2020) pg. 55-57*

5. QUANTIFYING THE CHANGES IN ACTIVITY STATUS

5.1. POTENTIAL MARKET SCENARIOS

- 5.1.1 This section assesses the potential impacts on the active HSA market of enforcement of the current provisions (considered to be the counterfactual position for Council) and enforcement of provisions under PC4. It is important to note that there are difficulties with regard to actual market provision when considering the impacts of PC4's restrictions on guest numbers and access hours. In terms of the level of effects, the number of properties (or visitor nights) that would practically be impacted would require, for example, an understanding of the number of visitors that require late check-ins rather than simply those properties that either advertise late checks or alternatively don't specify check-in times.
- 5.1.2 In terms of the provisional differences between PC4 and the current provisions, although PC4 is more permissive than the existing regulations for HSA under 60 days in residential zones (outside the Central City) and under 180 days in rural zones, it is more restrictive for unhosted HSA over 180 days²², and HSA providers in the Central City are now included with the rest of the residential zones, (i.e. it is no longer permitted for units under 40sqm). Additionally, PC4 introduces new check-in times and maximum guest rules that do not exist in the current legislation.
- 5.1.3 Overall, PC4 would appear to represent a shift towards a more permissive approach to HSA in residential zones. Given what is understood to be a reactive approach to enforcement to date, the resulting market is not currently indicative of these existing provisions. Rather, the 'active' level and distribution of HSA in the current environment is considered to reflect that of a fully permitted activity. As such, it is important to understand what enforcement of both the PC4 and Operative provisions could potentially result in within the HSA market.
- 5.1.4 We can express this as three different scenarios:
- 1) Full compliance with current rules
 - 2) Full compliance with PC4
 - 3) Status Quo (Reactive approach to enforcement – utilised as a proxy for a permitted baseline)
- 5.1.5 This section will therefore discuss both the implications of a shift towards the PC4 from the Operative (Scenario 1 -> Scenario 2) and the implications of a shift from the Status Quo to compliance with PC4 (Scenario 3 -> Scenario 2).
- 5.1.6 These impacts are assessed on the Entire Home / Apt listings for the year ended February 2020. The 29 "Entire Home / Apt" listings that have been classified as non-residential (i.e. Campsite or Campervan) are

²² This would not be the case under the proposed amendment that changes the activity status for listings exceeding the 180-day limit to Discretionary.

excluded from this analysis hence the new total of 2,423 listings rather than 2,452 listings shown in the tables above.

5.1.7 To assess the change in activity status it was important to first define the activity status of HSA in both the Operative and PC4 plan. Note, that this assessment is focused on the impacts on unhosted HSA as the primarily impacted market.

Operative Plan:

- Commercial, Mixed-Use and Residential Guest Accommodation Zones: Permitted
- Rural Zones: Permitted²³
- Residential Central City Zone: Permitted for Under 40sqm, Non-Complying otherwise²⁴
- Other Residential: Discretionary

PC4:

- Commercial, Mixed-Use and Residential Guest Accommodation Zones: Permitted
- Rural Zones: Permitted up to 180 days, Discretionary Over 180 days²⁵
- Residential Central City Zone: Same as Other Residential Zones
- Other Residential: Controlled up to 60 days, Discretionary between 60 and 180 days, and Non-Complying over 180 days.

Status Quo:

- Commercial, Mixed-Use and Residential Guest Accommodation Zones: Permitted
- Rural Zones: Permitted
- Residential Central City Zone: Permitted
- Other Residential: Permitted

5.1.8 As discussed in paragraph 3.5.2, to adjust for the geospatial distortion in AirDNA's data (150m radius), Property Economics has connected each listing to the closest Commercial, Rural, Mixed Use or Residential

²³ Farm Stays are a permitted activity in rural zones but is dependent on having a maximum of 4-10 guests (depending on zone and location) and being an accessory activity (i.e. Farm Stay is not the main activity on the site). For this reason, there may be several HSA listings in rural zones that do not meet this criteria and are therefore not permitted activities.

²⁴ As the data does not provide the property size, it has been assumed that any 1 Bedroom property is under 40sqm and any 2 Bedroom property or larger exceeds this limit. Furthermore, it is also noted that the rules around unhosted HSA for under 40sqm is not entirely clear.

²⁵ Rural Properties are also limited to 6 guests and can apply for a Discretionary Consent to exceed this. While this does not change the activity status for those renting their property out for more than 180 days, those under 180 days are assumed to not apply for a consent and simply limit the number of guests.



Zone. Consequently, the activity status outside these four zone groups (i.e. Industrial or Open Space), has not been considered.

5.1.9 Table 6 summarises the listings by activity status under each of the three scenarios.

TABLE 6: SUMMARY OF ACTIVITY STATUS UNDER EACH SCENARIO FOR ENTIRE HOME / APT LISTINGS ACTIVE DURING YEAR ENDED FEB 2020

	Operative	PC4	Status Quo
Permitted	546	447	2,423
Controlled		832	
Discretionary	1,726	795	
Non-Complying	151	349*	

Source: CCC, Property Economics, AirDNA

* Represents listings used for more than 180 days that would be classified as Discretionary under the proposed amendments to PC4.

5.2. CHANGE IN ACTIVITY STATUS

5.2.1 Table 7 shows the change in activity status for the 2,423 active Entire Home / Apt listings during the Year Ended February 2020 (YE Feb 2020). This shows that for 864 or 36% of all listings, PC4 will result in a more permissive activity status than it currently faces under the Operative Plan. The majority of these are due to current HSA listings in Residential Zones moving to a Controlled activity status if they have less than 60 Reservation Days.

TABLE 7: CHANGE IN ACTIVITY STATUS FROM OPERATIVE TO PC4

	<u>Operative -> PC4</u>	<u>No. of Listings</u>	<u>Reason</u>
Less Restrictive	Discretionary -> Controlled	747	Residential Zone up to 60 days
	Non Complying -> Controlled	61	Central City (>40sqm) up to 60 days
	Non Complying -> Discretionary	56	Central City (>40sqm) for 61 - 180 days
	Total	864	
Same Activity Status	Discretionary -> Discretionary	681	Residential Zone for 61- 180 days
	Permitted -> Permitted	276	Permitted Zones (i.e Commercial)
	Permitted -> Permitted	171	Rural Zone under 180 days
	Non Complying -> Non Complying	34	Central City (>40sqm) Over 180 days
	Total	1,162	
More Restrictive	Permitted -> Controlled	24	Central City (<40sqm) up to 60 days
	Permitted -> Discretionary	39	Central City (<40sqm) for 61- 180 days
	Permitted -> Non Complying	17	Central City (<40sqm) Over 180 days
	Permitted -> Discretionary	19	Rural Zone over 180 days
	Discretionary -> Non Complying	298	Residential Zone over 180 days
	Total	397	

Source : Property Economics, CCC

5.2.2 For 1,162 of the listings, their activity status will not change. This includes all the properties currently in permitted zones and those in the residential zones that are rented for 61 – 180 days (which retain their Discretionary Activity Status).

5.2.3 For 397 listings, their activity status changes to be more restrictive than it is under the Operative Plan. This includes all the Central City properties under 40sqm, Rural Zone for over 180 days and residentially zoned for over 180 days.



5.3. MAXIMUM GUESTS REGULATION

5.3.1 Out of the 2,423 unhosted visitor accommodation listings in Christchurch that were active during the year ended February 2020, 320 of them were located in the Residential or Rural Zones and have the capacity to exceed six guests per night (but not more than twelve). Of these,

- 22 were located in the Rural Zone and would otherwise be classified as a Permitted activity under PC4.
- 141 were located in the Residential Zone and would otherwise be classified as a Controlled activity under PC4.
- 155 were located in either the Residential or Rural zones and already classified as either a Discretionary or Non-complying activity under PC4 due to exceeding the maximum number of nights.

5.3.2 Out of the 1,858 hosted visitor accommodation listings in Christchurch that were active during the year ended February 2020, only 12 have the capacity to exceed six guests per night (but not more than twelve). All of these listings would otherwise be classified as a permitted activity under PC4 and would need to apply for consent if they wish to host more than six guests.

5.3.3 In addition to this, 2 hosted and 11 unhosted units are located in the Residential Zone and have the capacity to exceed twelve guests. In order to exceed this maximum number of guests, the host would have to apply for a non-complying consent.

6. MODELLING THE ECONOMIC IMPACT OF PC4

6.1. MODEL INPUTS / ASSUMPTIONS

- 6.1.1 To assess the economic impact of PC4 on both the counterfactual Operative position and the Status Quo, we have modelled as a scenario, the likely impact of the regulations on the existing market (YE Feb 2020). By estimating the likelihood of HSA operators remaining in the market when faced with the risks and costs associated with applying for a resource consent, we can quantify the number of HSA reservations that will be affected and by extension, the likely impact of PC4 on the Status Quo.
- 6.1.2 Applying the same model to the Operative Plan regulations enables us to estimate its likely market position. By comparing the results of the two scenarios, we can assess the likely impact of PC4 on a fully enforced HSA market and thereby the impact of PC4 on the Operative Plan.
- 6.1.3 Three key factors will determine whether a listing is likely to stay or leave the market:
1. Perceptions of HSA operators (i.e. Perceived risk of consent and expected return),
 2. The likelihood of the consent being granted, and,
 3. The expected cost of the consent.

Perceptions of HSA Operators

- 6.1.4 Without conducting an expensive survey on the HSA operators in Christchurch, there is no practical way of assessing an individual's risk aversion or likelihood of operating or exiting the market. There are those who when faced with a resource consent, would simply rather avoid the process entirely even if their expected return exceeds the expected costs. However, others will sense an opportunity in the lapse in unhosted HSA supply and either enter the market or increase the number of available days in the hopes of capturing the demand. The dynamics of this are not accounted for in the model.

Propensity of consent being applied for and granted

- 6.1.5 Those facing a controlled consent have certainty that their application will be accepted provided they meet the required conditions. Those faced with having to apply for a Discretionary or Non-Complying consent, however, will face a certain level of uncertainty over whether the council will grant their consent.
- 6.1.6 As previously discussed, PC4 provides a policy and objective framework that enables the Council to approve HSA in residential zones when the environmental effects are found to be no more than minor. This is in contrast with the existing policies in which the applicant needs to prove a genuine strategic or operational need to locate in residential zones. Consequently, the likelihood of a Discretionary consent being granted under the Operative Plan is considered to be significantly lower than that of PC4. The need to obtain a non-complying activity resource consent (e.g. over 40sqm listings in the Residential Central City Zone under the Operative Plan) is likely to deter many operators as this class of consent could well be publicly notified and

would involve a high level of uncertainty over the time and costs for such an application, as well as over whether such an application would be granted consent.

- 6.1.7 Having discussed with the Council’s planners, Property Economics understands that it is difficult to accurately quantify the likelihood of a HSA consent application for a discretionary activity being granted. However, this difference in likelihood between the Operative and PC4 plans is fundamental to understanding their relative impacts. Since there are no explicit policy support for visitor accommodation in residential zones (outside defined locations) in the Operative Plan, an applicant needs to prove a strategical or operational need to locate in the residential zone. In contrast, the policies introduced by PC4 provide for the management of visitor accommodation in a residential zone to minimise the impacts. The council’s planners believe it would be rare for an applicant to be unwilling to make changes in order for an application to be granted whereas the Section 32 report²⁶ identified significant difficulty in approving consents under the existing plan.
- 6.1.8 Following advice from the Council’s planners, Property Economics have applied a scenario where only the top 10% of HSA who need a Discretionary Consent (as ranked by revenue) apply and receive consent under the Operative Plan. This assumes that most HSA operators will not apply given the perceived likelihood of approval. In contrast, the scenario applied for PC4 assumes that all HSA listings whose revenue exceeds the consenting costs (as discussed in the following section) will apply for consent under PC4 and that 10% being declined. This is a scenario used to demonstrate the effect these assumptions have on the modelled impacts as opposed to the alternative where everyone who meets the revenue criteria apply and are granted consent.

Consent Costs

- 6.1.9 In the Section 32 report, it is noted that:

“...a resource consent application for a Controlled activity could potentially still cost several thousand dollars. In the context of resource consent requirements for comparable land uses and the potential additional income enabled, this is not considered to be a significant cost for those individuals. These costs are also likely to be considerably less than the costs associated with a full Discretionary resource consent as required under the current provisions.”²⁷

- 6.1.10 Property Economics was provided with the costs of the HSA resource consents that have been processed in Christchurch. Four out of the five Discretionary and Non-Complying consents did not need to be notified and therefore cost the applicants between \$2,890 and \$6,789. The fifth consent, which was limited notified, cost the applicant \$24,885.
- 6.1.11 Additionally, Property Economics was provided with the Controlled Activity consenting costs from Queenstown. There were three listings, two of which cost the applicant less than \$1,600 and one (which sought consent for two separate properties) which cost the applicant \$4,238. However, it was noted that

²⁶ CCC (2020) Christchurch District Plan Change 4 Section 32 Evaluation, pg.2

²⁷ Ibid. pg. 63



these were Council specific costs and does not include any costs incurred by the applicant in preparing the application.

- 6.1.12 Mr Bonis in his evidence²⁸ estimates consent costs of \$4,000 to \$5,250 for a Controlled activity and upwards of \$15,000 for notified Discretionary or Non-Complying consents.
- 6.1.13 It is important to note that there is the potential for the council to implement a more streamlined process following the implementation of PC4 that will keep costs down. However, Property Economics do not have quantifiable evidence to suggest the likely costs of such a process.
- 6.1.14 Property Economics have adopted Mr Bonis's assessed costs of \$4,000 for Controlled consent and \$15,000 for Discretionary. The model assumes that any HSA listing's annual earnings must exceed the cost of the consent. In reality, many HSA hosts would likely expect their return on the first year to exceed that of their upfront consenting costs unless they are confident in their long-term prospects. However, the data from Queenstown shows that a more affordable process is likely achievable than the costs estimated by Mr Bonis. Therefore, by applying these more conservative cost estimates as a minimum, annual revenue level accounts for a certain level of profit expectations.
- 6.1.15 While market motivations are difficult to pre-empt, Property Economics have applied values it believes provide appropriate context. It is important to note, the model is sensitive to both the assumption on consenting costs and the revenue required to sustain these costs. However, as the same set of assumptions have been applied to both the PC4 and Operative positions, the sensitivity of these assumptions will have a limited effect on the relative Operative -> PC4 position. If for example we decrease the revenue requirements to pay for the consent over two years, then the number of HSA listings that would be expected to apply for a consent under both the Operative and PC4 positions would proportionally increase at the same rate.

6.2. 100% ACCEPTANCE RATE MODEL

Model Formulation

- 6.2.1 Based on the consideration of the above, we first develop a model that assesses only the cost of the consents relative to a listing's revenue for the year. This assumes that everyone that applies for consent will be granted one.
- 6.2.2 An individual listing is assumed to continue if:
- Permitted OR
 - Controlled activity and Revenue \geq \$4,000 OR
 - Discretionary Activity and Revenue \geq \$15,000.

²⁸ Mr M Bonis (2021) Statement of Evidence Proposed PC4 to the Christchurch District Plan, pg 42

- 6.2.3 This means that if an activity is Controlled under PC4 (i.e. is in the Residential Zone and was rented out for less than 60 days during the year) it will need to have exceeded \$4,000 in revenue for that year. Likewise if the HSA is classified as a Discretionary activity, it will need to exceed \$15,000 in revenue for that year.
- 6.2.4 It is important to note that this is a modelled scenario applied on a set number of listings for the year ended February 2020. This has been chosen as it represents the most recent annual period during the normal tourism seasons (i.e. before COVID-19 Lockdown).
- 6.2.5 If the listing does not meet any of these conditions (i.e. is Controlled and less than \$4,000 revenue or is Discretionary and earns less than \$15,000 revenue) then it is assumed to cease.
- 6.2.6 Note that under the notified version of PC4, any unhosted HSA activity that exceeds 180 days is classified as Non-Complying. In assessing the likely impacts of the notified PC4 provisions it is assumed that these listings will reduce the number of used days to 180 in order to meet the Discretionary criteria.

Results: PC4

- 6.2.7 Table 8 shows the number of listings and reservation days that are expected to be impacted by PC4 according to the assumptions applied in the model. This shows that under this scenario, of the 2,423 unhosted HSA listings that were active during the year ended February 2020, 852 would cease operations resulting in a reduction of 53,249 reservation days. Although this represents 34% of the listings, it only impacts 21% of the reservation days in unhosted HSA.
- 6.2.8 Of the 1,571 listings that will continue to operate, 299 listings hosted an additional 18,082 reservation days during the year ended February 2020, which will need to drop to meet the Discretionary activity 180-day limit.

TABLE 8: MODELLED SCENARIO TO SHOW IMPACT OF PC4 AS NOTIFIED ON CURRENT 'ACTIVE' ENVIRONMENT

	Cease		Continue		Over 180 Days*	
	No. Listings	Reservation Days	No. Listings	Reservation Days	No. Listings	Reservation Days
1 Bed	270	23,482	319	37,386	57	3,976
2 Bed	247	13,654	475	53,668	100	5,914
3-4 Bed	277	14,799	492	50,279	90	5,519
5-6 Bed	55	1,227	247	23,168	45	2,297
7+ Beds	3	87	38	3,957	7	376
Total	852	53,249	1,571	168,458	299	18,082

Source : Property Economics

- 6.2.9 Additionally, it is noted that the above model formulation is biased towards larger dwellings who can achieve a higher daily rate and therefore, are more likely to reach the revenue thresholds. Unless the

consenting process is somehow made to be more affordable relative to the size of the property, this is considered a reasonably likely outcome.

6.2.10 Alternatively, the change in activity status for listings over the 180-day limit results in a drop in the number of affected reservation days to only 43,369 (from a total of 71,331). This includes a decrease in the number of properties that are expected to cease as some of the properties that exceeded the 180-day limitation were unable to achieve the expected \$15,000 revenue margin at 180 days. The results of this option are shown on Table 9 below.

TABLE 9: MODELLED SCENARIO TO SHOW IMPACT OF ADMENDED PC4 ON CURRENT 'ACTIVE' ENVIRONMENT

	Cease		Continue	
	No. Listings	Reservation Days	No. Listings	Reservation Days
1 Bed	250	18,382	339	46,462
2 Bed	240	11,821	482	61,415
3-4 Bed	266	11,852	503	58,745
5-6 Bed	55	1,227	247	25,465
7+ Beds	3	87	38	4,333
Total	814	43,369	1,609	196,420

Source : Property Economics

Results: Operative Plan

6.2.11 Table 10 shows the impact on the active unhosted HSA listings with full compliance with the Operative Plan. This shows that if the HSA market complied with the Operative Plan during the year ended February 2020, an additional 349 listings would have had to close over and above those in the PC4 results. These primarily represent the dwellings that are classified as Controlled Activities under PC4, but Discretionary or Non-Complying under the Operative.

6.2.12 Additionally, 56 of these dwellings were properties larger than 40sqm in the Central City Residential zone and therefore classified as Non-Complying under the Operative Plan. Although the Christchurch City Council has received and approved some Non-Complying consents for Visitor Accommodation in the Central City, we cannot assume this will be the case and rather they are all assumed to close under the Operative Plan.

6.2.13 Although an additional 15,014 reservation days will be affected by the closure of HSA under the Operative Plan as opposed to the notified PC4 provisions, this difference is offset by the 180-day limitation that is not present in the Operative Plan. Consequently, without accounting for the likelihood of the consent being granted under each plan, the notified PC4 provisions will affect more reservation days than that of the Operative Plan. The difference in impacted reservation days is small, with the 3,068-day difference representing just over 1% of the Unhosted HSA market.

6.2.14 Conversely, there is a greater difference in the number of affected reservation days if we consider the proposed PC4 position that changes the activity status for listings exceeding the 180-day limit. In this

instance, 24,894 fewer reservation days would have been affected by compliance with PC4 compared to the Operative Plan.

TABLE 10: RESULTING IMPACT OF OPERATIVE PROVISIONS ON CURRENT 'ACTIVE' ENVIRONMENT
ASSUMING 100% ACCEPTANCE RATE

	Cease		Continue	
	No. Listings	Reservation Days	No. Listings	Reservation Days
1 Bed	249	17,577	340	47,267
2 Bed	390	25,767	332	47,469
3-4 Bed	417	19,613	352	50,984
5-6 Bed	134	5,022	168	21,670
7+ Beds	11	284	30	4,136
Total	1,201	68,263	1,222	171,526

Source : Property Economics

6.3. MODEL FORMULATION - ASSUMED UPTAKE RATE

6.3.1 As previously discussed, the policies introduced by PC4 means the likelihood of consent being granted under the new provisions are significantly higher than that of the Operative Plan. To demonstrate the potential impacts that a difference in the proportion of consent applications granted can have on the likely impacts of plan change 4, Property Economics has assessed the following scenario:

- **Operative Plan:** Only the top 10% of HSA listings (as ranked by revenue) who require a Discretionary consent would have a propensity to apply, all whom will be granted one.
- **PC4:** All controlled activity consent applications are granted while 90% of Discretionary activity consent applications are granted (i.e. 10% of Discretionary activity consent applications are declined). As with the previous model, every host who earns over the \$15,000 threshold is assumed to apply for a consent.

6.3.2 As the assumed 10% decline rate is based on the version of PC4 with Council's suggested amendments, this scenario has only been applied to the amended PC4 position (i.e. without the 180-day limit) and not the notified PC4 position. This 10% decline rate has been applied evenly across each of the bedroom typologies shown.

Results: PC4 as amended

6.3.3 Table 11 below shows the number of listings and reservation days affected by the amended PC4 provisions assuming 90% of Discretionary activity consent applications are granted. Under this scenario, the number

of listings affected increases from 814 to 890, increasing the total number of Reservation days affected to 57,277.

TABLE 11: RESULTING IMPACT OF PC4 PROVISIONS AS AMENDED ON CURRENT 'ACTIVE' ENVIRONMENT ASSUMING 90% OF APPLICATIONS FOR DISCRETIONARY ACTIVITY CONSENTS ARE GRANTED

	Cease		Continue	
	No. Listings	Reservation Days	No. Listings	Reservation Days
1 Bed	263	21,140	326	43,704
2 Bed	263	16,143	459	57,093
3-4 Bed	292	16,352	477	54,245
5-6 Bed	68	3,240	234	23,452
7+ Beds	4	402	37	4,018
Total	890	57,277	1,533	182,512

Source : Property Economics

Results: Operative Plan

- 6.3.4 Table 12 following shows the number of listings and reservation days affected by compliance with the Operative Plan assuming only the highest-earning HSA reservations will apply (and be granted) a Discretionary consent.
- 6.3.5 Under this assumption, if the Operative Plan was fully complied with during the year ended February 2020, then 69% of the unhosted HSA listings would have been unable to operate. This would have affected a total of 140,062 reservation days, which represents 69% of the unhosted HSA market during that year. This is almost two and a half times as many reservation days impacted under these modelling assumptions than the PC4 provisions with 10% of applications being declined.

TABLE 12: RESULTING IMPACT OF OPERATIVE PROVISIONS ON CURRENT 'ACTIVE' ENVIRONMENT ASSUMING 10% APPLICATION RATE ON DISCRETIONARY CONSENTS

	Cease		Continue	
	No. Listings	Reservation Days	No. Listings	Reservation Days
1 Bed	334	34,902	255	29,942
2 Bed	520	46,278	202	26,958
3-4 Bed	599	46,927	170	23,670
5-6 Bed	200	11,050	102	15,642
7+ Beds	19	905	22	3,515
Total	1,672	140,062	751	99,727

Source : Property Economics

6.4. REDISTRIBUTION OF DAYS

- 6.4.1 Having assessed the likely number of reservation days affected by Operative and PC4 plans, we then modelled the ability for the remaining market to accommodate these reservation days. Essentially this assumes that HSA patrons will first and foremost attempt to book at other similar properties that remain viable and have existing capacity.
- 6.4.2 For every Bedroom Group and Month combination (starting with January), the model finds every listing that has spare capacity during that month and (in the case of PC4) checks against the listing's yearly capacity so as not to exceed its current 'threshold' (0 – 60, 61- 180, 180 +). For example, a property with 50 reservation days in the Residential Zone, will have 10 extra days that can be assigned to it. At the current stage, this modelling does not take into account the geospatial location of the HSA that is being substituted or more sophisticated preferences that will influence some HSA patrons.
- 6.4.3 It should be noted that the capacity constraints by month are a direct consequence of the order in which the reservation days were allocated. By allocating days to January first and December last, December will have more properties who are already at their yearly capacity. This may in fact eventuate in a market that has restrictions on the number of reservation days. A busy winter period for example, may mean that the established HSA providers are unable to supply the demand for HSA during the summer months.

TABLE 13: NUMBER OF RESERVATION DAYS UNABLE TO BE REDISTRIBUTED TO OTHER ENTIRE HOME / APT LISTINGS WITH SPARE CAPACITY - PC4

Month	1 Bed	2 Bed	3-4 Bed	5-6 Bed	7+ Beds	Total
March-19	2,323	1,697	609	-	-	4,629
April-19	1,521	763	282	-	-	2,566
May-19	409	-	-	-	-	409
June-19	806	-	-	-	-	806
July-19	1,257	-	34	-	-	1,291
August-19	927	-	-	-	-	927
September-19	950	-	225	-	-	1,175
October-19	932	-	-	-	-	932
November-19	1,440	-	470	-	-	1,910
December-19	1,737	20	761	-	-	2,518
January-20	535	-	-	-	-	535
February-20	1,413	-	-	-	-	1,413
Total	14,250	2,480	2,381	0	0	19,111

Source : Property Economics

6.4.4 Table 13 shows the number of reservation days that were unable to be allocated to another Entire home / apt listing using this methodology for the PC4 scenario. As expected, the greatest capacity constraints occur in the 1-bedroom listings as this had the highest proportion of providers likely to cease operations. Beyond this, reservations in 2-bedroom and 3-4-bedroom HSA listings have some capacity constraints across some key months, namely March in the case of 2- Bedroom.

6.4.5 In contrast, Table 14 following shows the number of reservation days unable to be reallocated under the Operative Plan. Although there are significantly fewer HSA listings on the market, those that do remain are not limited by a set number of days per year. There is, therefore, more capacity under the regulations of the Operative Plan than PC4.

TABLE 14: NUMBER OF RESERVATION DAYS UNABLE TO BE REDISTRIBUTED TO OTHER ENTIRE HOME / APT LISTINGS WITH SPARE CAPACITY - OPERATIVE PLAN

Month	1 Bed	2 Bed	3-4 Bed	5-6 Bed	7+ Beds	Total
March-21	775	1,181	-	-	-	1,956
April-21	-	81	-	-	-	81
May-21	-	-	-	-	-	-
June-21	-	-	-	-	-	-
July-21	-	-	-	-	-	-
August-21	-	-	-	-	-	-
September-21	-	-	-	-	-	-
October-21	-	-	-	-	-	-
November-21	-	-	-	-	-	-
December-21	-	368	-	-	-	368
January-21	289	764	509	-	-	1,562
February-21	1,002	1,172	898	-	-	3,072
Total	2,066	3,566	1,407	0	0	7,039

Source: Property Economics

7. POTENTIAL ECONOMIC COSTS AND BENEFITS ASSOCIATED WITH REGULATION SHIFTS

7.1. SECTION OVERVIEW

7.1.1 The following section identifies the economic costs and benefits associated with the shift from:

- Status Quo framework to PC4,
- The current planning provisions to PC4.

7.1.2 Where possible these impacts will be quantified or at least consideration will be given to the likely extent and significance of the impacts.

7.2. STATUS QUO TO PC4 PROVISIONS FRAMEWORK

Potential Economic Costs

7.2.1 The following outlines some of the potential economic costs associated with a move from the status quo of non-compliance of some HSA operators to the District Plan, to full compliance with the proposed provisions under PC4.

Loss of Tourism Spend

7.2.2 As outlined above, a potential economic benefit of HSA is its ability to attract additional visitors to Christchurch City and as a result increase the total visitor spend and overall economic contribution of tourism to the city.

7.2.3 This cost assesses the potential reduction of visitor spend resulting from the PC4 conditions relative to the current 'active' situation (Status Quo). Data from AirDNA indicated that the total spend on HSA (over the identified year) was approximately \$50m. Table 15 indicates the process undertaken to assess the potential impact on this and its associated economic contribution.

7.2.4 The assumptions that drive this modelling include:

- Total associated visitor spend is based on the proportional breakdown found in Table 2 of Property Economics 2020²⁹.
- It is assumed that the proportion of spend between hosted and unhosted HSA is related to the total accommodation spend in these two categories. Unhosted accommodation spend represents 80% of total HSA accommodation spend.
- This level of impact is based on the proportion of potentially 'lost' HSA nights in Table 8.

²⁹ Property Economics (2020), pg. 43-46

- As identified in Section 4, there is the potential for up to 10.6% of these nights for visitors who would not visit due to the reduced HSA.
- Finally, the value-added contribution of sectors pertinent to HSA spending has been assessed in terms of GDP.
- Tables 16 and 17 relate to changes recommended by Council, including the extension of Discretionary activity status for applications exceeding 180 days.

TABLE 15: TOTAL ANNUAL IMPACT ON TOURISM ECONOMIC CONTRIBUTION PC4 (AS NOTIFIED)

	\$m
Total HSA Spend	\$50.0
Total Associated Visitor Spend	\$217.4
Total Unhosted Spend	\$173.9
Total 'impacted' HSA Reservation Nights	\$48.7
Total 'impacted' Accommodation Reservation Nights	\$5.2
Total Direct and Indirect Value-Added	\$3.6

TABLE 16: TOTAL ANNUAL IMPACT ON TOURISM ECONOMIC CONTRIBUTION PC4 (COUNCIL CHANGES)

	\$m
Total HSA Spend	\$50.0
Total Associated Visitor Spend	\$217.4
Total Unhosted Spend	\$173.9
Total 'impacted' HSA Reservation Nights	\$39.1
Total 'impacted' Accommodation Reservation Nights	\$4.2
Total Direct and Indirect Value-Added	\$2.9

TABLE 17: TOTAL ANNUAL IMPACT ON TOURISM ECONOMIC CONTRIBUTION PC4 (COUNCIL CHANGES 90% APPROVAL RATE)

	\$m
Total HSA Spend	\$50.0
Total Associated Visitor Spend	\$217.4
Total Unhosted Spend	\$173.9
Total 'impacted' HSA Reservation Nights	\$46.6
Total 'impacted' Accommodation Reservation Nights	\$5.0
Total Direct and Indirect Value-Added	\$3.4

Source : Property Economics

7.2.5 This assessment illustrates several factors:

1. The potential direct impact of PC4 on visitor's contribution to GDP is approximately \$3.6m per annum
2. The potential direct impact of PC4 (with discretionary activity status for any listing of more than 60 nights per year) on visitor's contribution to GDP is approximately \$2.9m per annum
3. The potential direct impact of PC4 (Assuming 90% of applications for discretionary activities are granted) on visitor's contribution to GDP is approximately \$3.4m per annum
4. It is important to note that these figures do not consider the potential for the remaining HSA capacity to meet all demand (albeit this may have seasonal limitations based on Tables 13 and 14 above)
5. It is important to note that this assessment does not consider the potential impacts on supply of either restrictions on check-in/out times or maximum occupancy rates. There is limited accurate information relating to either the potential impacts of these (on amenity etc) or of their prevalence and utilisation in the market.

Transactional Costs

7.2.6 A further cost associated with PC4, relative to the Status Quo, are the costs relating to pursuing a resource consent, both Controlled and Discretionary activities. As Section 6 outlined, these costs can vary between properties but for the purposes of this assessment, it is assumed that a Controlled activity consent will, on average, cost approximately \$4,000, while a Discretionary consent will cost up to \$15,000. Following the modelled estimate of how many HSA hosts would apply for a consent in Section 6, the total cost that would be incurred by the HSA market for both the Controlled and Discretionary consents is estimated at approximately \$13m. It is important to note that this cost would be for consenting HSA activity in perpetuity. As this represents the cost to the HSA market based on the active listings for the year ended February 2020, it does not allow for changes in HSA properties over time. Given the associated cost of consenting however, it is likely that the HSA market will become less volatile with a fall in the likelihood of properties exiting and entering the market.

7.2.7 In addition to this, it must be noted that there are likely to be additional Council costs associated with more proactive enforcement, it is unclear at this time the total cost of this aspect of administration (or in addition a monitoring fee for consents).

Potential Loss of Income

7.2.8 A key reason for the advent and escalation of HSA is the ability to create additional income for homeowners. This income can be utilised to support the finances of occupied owners (hosted accommodation) or, in the case of this assessment, provide additional income that supports the ownership of additional properties. The limitation of HSA through regulation has the potential to reduce the level of income attributable to this source. While most of this impact is either captured in the tourism spend analysis or is likely to transfer either to sustained HSA or commercial accommodation, there is potential for

a small proportion of the \$40m per annum earned through hosted HSA to impact upon residential property investment.

Reduction in Competition

- 7.2.9 As indicated the growth of HSA over the past 4 years has been substantial. This due in part to the increased choice provided to the visitor market. Greater product flexibility, price and location has the potential to improve the overall market. With the implementation of PC4 the resulting market has the potential to result in fewer properties opting for HSA provision. While this may not result in an actual reduction in HSA reservation nights it may cause fewer properties to accommodate those nights with less choice for guests.

Impact on Short-term Accommodation Elasticity

- 7.2.10 More recent data from HSA utilisation illustrates a significant drop in available properties post Covid. This highlights a level of flexibility provided to the market through freedom for existing residential properties to enter and exit the market. This provides a flexibility for seasonal increases in demand that can be provided on a temporary basis. If the HSA market complies with the PC4 regulations, it is likely to reduce this flexibility with both increased costs and a requirement for certainty regarding the extent of days occupied. As illustrated in Tables 8-10 this issue is likely to be more pronounced for the smaller 1 -2-bedroom properties within high demand periods.

Potential Economic Benefits

- 7.2.11 The following outlines some of the potential economic benefits associated with a move from the Status Quo to full compliance of the provisions proposed by PC4.

Aggregated Visitor Spend

- 7.2.12 As outlined in the previous report³⁰, dispersed visitor accommodation has the potential to reduce activity within centres, specifically the CBD. While the assessment illustrated the potential for redistribution from the CBD in the millions of dollars per annum, PC4 does not encourage HSA within or around the Christchurch CBD (both Central City and the Residential Zone have the same thresholds for Controlled and Discretionary activity status). The impact on HSA indicated in Table 11 is unlikely to result in a movement to locations that are less distributed, in fact the provision of smaller properties with lower revenues (impacted by costs) is more likely in the Central City Zone.

Decreased Housing Volatility

- 7.2.13 As identified above, one of the benefits associated with HSA is the flexibility it provides to the market in terms of supply changes and temporal capacity. Coupled with this flexibility is the risk associated with the impacts on the housing market resulting in a potential overinvestment in property due to the income generated through this source. An overinvestment in property supported by HSA has the potential to create market issues if the source of this income is dramatically impacted. For example, the loss of income through significantly impacted tourism (due potentially to an earthquake) would not only impact the commercial market but also the ability for owners to hold property supported by the proceeds of tourism.

³⁰ Property Economics (2020) pg. 49-53

In this case this could exacerbate the impact on the housing market. In the case of PC4 and the context of the Christchurch housing market this is considered unlikely to be material. This is due firstly to the extent of the market supported by HSA and secondly by the fact that a result of PC4 may be, while reducing the number of overall properties relying on HSA income, increase the reliance of those involved in its provision.

Reduced Inequality

- 7.2.14 While identified within the economic benefit section of this assessment, this issue may well be hindered by HSA regulation. General anecdotal information suggests that the majority of HSA is provided by owners with multiple properties (thereby having a negative impact upon equity and homeownership rates). However, there is the potential that the HSA listings impacted the most by PC4 provisions are those with smaller properties with lower reservation days. This may have an impact upon owners who support their first home ownership through the income HSA provides in high seasons.

Improved Affordability and Resident Housing Supply

- 7.2.15 For the purposes of this report, Property Economics has not quantified the housing price impacts. The problem with modelling this is that the dynamics of the housing market and the differences caused by a city recovering from an earthquake and the very small proportion of the overall housing stock undertaking HSA make it difficult to separate the HSA impacts from the house price trends. As it stands, the impact of losing 2000 homes to HSA for example is entirely dependent on the current surplus or shortfall of the market as the effects are not linear. As it currently stands, Christchurch is more affordable than other major cities in New Zealand with the proportion of empty dwellings in the 2018 census being 4.5% of total dwellings in comparison to the 3% average of other cities. Consequently, the Median House Price in Christchurch rose by only \$13,000 between 2014-2018, while in comparison the New Zealand Median rose by \$130,000 in the same period (likely driven primarily by Auckland).

- 7.2.16 Given this, HSA could have a positive impact on the housing market where the house prices are at risk of moving in the negative direction which has its own economic costs. While touted as a potential economic cost associated with HSA, Property Economics is of the opinion that this is not a major consideration, at this time, in the Christchurch market.

Impact on Investment and Equitable Competition

- 7.2.17 The non-HSA commercial accommodation market is crucial to the Christchurch economy. Apparent from the fundamental service it provides and the tourism it facilitates it provided for over 6 million guest nights in 2019 and generated over \$215m in revenue supporting a further estimated \$5-\$600m in visitor spend to the city. This is a vital aspect and contributor to the city economy. Under the Status Quo, HSA competes unequally. Commercial accommodation is not only more restricted by location but also generally incurs greater community costs in the form of rates. The impact of this is an unbalanced market which favours HSA's ability to generate personal income at the expense of the community (assuming that commercial rates are justified through greater associated costs).
- 7.2.18 PC4 provides some relief from this inequity but is not designed to address it. Although restricting the potential for HSA to accommodate activity beyond 180 days in the residential zone targets HSA that could



be considered commercial, this is likely to affect only 10% of reservation days and the properties themselves are expected to remain viable and competitive.

7.2.19 In addition, the potential is for the additional (over 180 days) to transfer to other 'viable' HSA (rather than commercial accommodation) continuing the potential imbalance. The cost associated with Controlled and Discretionary activity consents, under PC4, will inevitably redress some of this imbalance. However, the transactional costs associated with the consent do not represent mitigation to the community but can only represent the cost of acquiring this consent.

TABLE 18: SUMMARISED ECONOMIC COSTS AND BENEFITS (STATUS QUO TO PC4)

Permissive (Active) to Plan Change 4			
	Active (Gross Impact)	Potential Market Reponse	Issues
Costs			
Impacts on Tourism	Estimated at \$3.6m per annum	The reduction in HSA resulting from the regulation will potentially be reconciled with increased capacity in consented HSA	Potential issue with smaller unhosted dwellings during seasonally high periods
Impacts on Short-term Accommodation Flexibility	Reduces the markets ability to respond to unexpected changes in demand. This also has the potential for consenting costs to be passed on resulting in increased visitor accommodation costs.	The reduction in HSA resulting from the regulation will potentially be reconciled with increased capacity in consented HSA	Potential issue with smaller unhosted dwellings during seasonally high periods
Impacts on choice	Reduces the market for 'whole house' supply	This provision is identified in the impacts on tourism. Research (not Christchurch specific) suggests that the impact could be as high as 4%. For the purposes of this assessment both loss of patronage and loss of 'additional' nights have been assessed resulting in a loss of 10.6%.	There is limited ability for typical commercial accommodation to cater for this specific demand.
Transactional Costs	Estimated at \$12m for the properties currently active and 'feasible'. Additionally there are likely to be enforcement costs for Council.	A reduction in currently active properties as assessed	
Resident Income	Maximum 'active' revenue loss \$14m per annum	The majority of this loss is likely to be generated elsewhere, either through an increase in commercial accommodation or within the HSA market that remains consented	

Source : Property Economics

7.2.20 Subsequent recommended changes by Council would reduce several of these costs including the impact on tourism. A change in activity status for listings exceeding the 180 day limit (from non-complying to discretionary) would likely see a drop in the impact on tourism to \$2.9m per annum, with this rising to \$3.4m per annum if it is assumed that 90% of applications for discretionary activity consent are granted.

Permissive (Active) to Plan Change 4			
	Active (Gross Impact)	Potential Market Response	Issues
Centre Impact	Previous assessment found the potential redistribution of retail spend away from, specifically, the CBD (as a result of HSA distribution) resulting in reduced activity within centres. The ability for PC4 to potential redress this impact is limited due to the non-specific geo-spatial regulations.	No material change in distribution of visitor spend or activity.	
Impact on Housing Stock	Due to the proportional nature of unhosted HSA the regulation is unlikely to materially impact upon potential housing volatility		
Impact on Equality	As above the impact on equality within the property market has the potential to reduce inequality with those unable to enter the property market	As with above the ability for PC4 to redress any market failure and inequality within the property market is likely to be immaterial. Additionally, HSA may alternatively support new home buyers to purchase housing, while remaining in rented accommodation.	
Impact on Affordability	The literature review indicates that there is possibly a range of impacts on both the overall housing market and the availability and cost of longterm rental properties	This impact is unlikely to be material in the context of Christchurch with only 1.3% -1.5% of housing affected. Additionally, any impact is likely to be shortterm as the market adjusts to the increased income source.	
Impact on Investment and Competition	The regulation of HSA, in the form of PC4, is likely to improve the competitive nature of commercial accommodation. The regulation and associated costs of commercial accommodation currently disadvantage its operation in relation to HSA, this results in an unequitable economic position and potential economic inefficiencies.	A potential reduction in HSA choice and supply, as well as any price impact, is likely to improve the competitive nature of commercial accommodation.	

Source : Property Economics

7.3. 'STATUS QUO' TO OPERATIVE PROVISIONS FRAMEWORK

Potential Economic Costs

7.3.1 The following outlines some of the potential economic costs associated with a move from the Status Quo, to a market that is compliant with the operative planning provisions.

Loss of Tourism Spend

7.3.2 This considers the potential reduction of visitor spend resulting from the Operative plan provisions relative to the current 'active' situation (Status Quo). Data from AirDNA indicated that the total spend on HSA (over the identified year) was approximately \$50m. Table 19 indicates the potential impact on this and its associated economic contribution. A further factor in this assessment is the propensity for resource consent to be granted as outlined in the section above, identified at 10% of all discretionary activity consents. It is estimated that the policy framework is likely to result in up to 90% of the existing market leaving the HSA market rather than attempting to gain the required consent.

**TABLE 19: TOTAL ANNUAL IMPACT ON TOURISM ECONOMIC CONTRIBUTION OPERATIVE
(10% APPROVAL)**

	\$m
Total HSA Spend	\$50.0
Total Associated Visitor Spend	\$217.4
Total Unhosted Spend	\$173.9
Total 'impacted' HSA Reservation Nights	\$95.6
Total 'impacted' Accommodation Reservation Nights	\$10.2
Total Direct and Indirect Value-Added	\$7.1

Source : Property Economics

7.3.3 This assessment illustrates several factors:

- The potential direct impact of the operative planning policy on visitor's contribution to GDP is approximately \$7.1m per annum
- It is important to note that these figures do not consider the potential for the remaining HSA capacity to meet all demand (albeit this may have seasonal limitations based on Tables 13 and 14 above)

Transactional Costs

7.3.4 Assuming that only the top 10% (as ranked by income) of unhosted HSA providers who need a Discretionary consent will apply for one, the consenting cost incurred by the HSA market is estimated at approximately \$2.6m. It is important to note that this transactional figure is significantly lower than that estimated under PC4 due to the expectation that few consents will be received due to the difficulty in obtaining approval.

7.3.5 In addition to this, it must be noted that there are likely to be additional Council costs associated with rule enforcement. It is unclear at this time the total cost of this aspect of administration (or in addition a monitoring fee for consents).

Potential Loss of Income

7.3.6 A key reason for the advent and escalation of HSA is the ability to create additional income for homeowners. This income can be utilised to support the financial position of occupied owners (hosted accommodation) or, in the case of this assessment, provide additional income that supports the ownership of additional properties. If the HSA market complies with the District Plan, then the enforced provisions have the potential to reduce the level of income attributable to this source. While most of this impact is either captured in the tourism spend analysis or is likely to transfer either to sustained HSA or commercial accommodation, there is potential for a small proportion of the \$40m per annum earned through hosted HSA to impact upon residential property investment. In comparison to PC4, the gross impacts on this source of income are expected to be significantly greater, in excess of \$25m per annum.

Reduction in Competition and Impact on Short-term Accommodation Elasticity

- 7.3.7 Due to the restrictive nature of the operative HSA policy, the impacts on these factors (Competition and Elasticity) are in turn likely to be proportionately greater than those of PC4 with a potential impact 2.5 times greater on visitor night capacity.

Potential Economic Benefits

- 7.3.8 The following outlines some of the potential economic benefits associated with a move from the Status Quo, to a market that is compliant with the operative planning provisions.

Aggregated Visitor Spend

- 7.3.9 A key difference between PC4 and the operative plan is the permitted activity status for unhosted HSA smaller than 40sqm, in the Central City Residential zone. This slight economic advantage for the central city in the operative plan provisions (at a proportional level and given the profitability of these sites in relation to consent fees) has the potential to redirect an additional half a million dollars of spend per annum into the central city.

Decreased Housing Volatility

Reduced Inequality

Improved Affordability and Resident Housing Supply

Impact on Investment and Equitable Competition

- 7.3.10 In terms of the aforementioned benefits, the potential impact of the operative plan on HSA capacity and supply is likely to result in significantly less provision and legitimate competition derived from this sector. As identified in the preceding analysis, the restrictions placed on HSA through the operative provisions are unlikely to result in material economic benefits due to their overall weight in the general market.
- 7.3.11 In terms of commercial accommodation, the operative provisions have the potential to result in an unequitable environment in favour of traditional commercial accommodation, significantly hampering a legitimate form of visitor accommodation.

7.4. RECONCILIATION

- 7.4.1 As identified above, there are a variety of potential economic costs and benefits associated with the move to either PC4 or application of the operative planning policies and provisions. While it is possible to give an indication of the quantitative extent for some of these impacts, most are outlined in a qualitative manner only.
- 7.4.2 **Status Quo (Current Environment) to PC4:** As outlined in the summary, PC4 is likely to reduce the number of currently active HSA sites as the costs associated with gaining consent are both material (in relation to revenues) and uncertain. The potential impact on visitor spend, estimated at \$3.4m³¹ per annum is likely to be overstated due to the potential for consented HSA to increase their occupancy rates. The transaction costs of PC4 are likely to be in the order of \$13m. These costs, although providing a consent in perpetuity,

³¹ It is important to note that this figure is sensitive to the assumption of a net loss of 10.6% of HSA visitors



are unlikely to be fixed as properties are both added and removed from the supply over time. With a total income of \$40m per annum identified for unhosted HSA in Christchurch, this cost represents a considerable initial outlay for the market.

- 7.4.3 Due to the relative size (to total dwelling size) of the HSA market within Christchurch, several of the identified economic benefits are unlikely to be material. Without specific data pertaining to the level and extent of social amenity issues suffered by neighbours, it is difficult to ascertain whether HSA has the potential to impact local property prices negatively.
- 7.4.4 In terms of the smaller commercial accommodation market, however, HSA represents a significant (26%) proportion of the market and is therefore likely to material impact upon this vital sector of the economy. As identified above, while providing for greater flexibility in the accommodation market, due to its multi-faceted utility, HSA creates greater volatility in the accommodation market for Christchurch and therefore less certainty for formal accommodation providers and the necessary investment. The initiation of a consenting process such as PC4 is likely to impact upon the volatility in the HSA market (primarily through costs). Additionally, the public costs associated with formal accommodation currently create an 'uneven' environment, potentially leading to a relative oversupply of HSA in the market in relation to formal accommodation.

8. CONCLUSIONS AND RECOMMENDATIONS

8.1. CONCLUSION

- 8.1.1 Tables 13 and 14 summarise the potential extent of the economic costs and benefits associated with the two identified scenarios. HSA has the potential to generate economic issues including impacts on centres (primarily the CBD) and the competitive environment for commercial accommodation operators. However, there are countervailing impacts such as overall tourism activity and spend that provide for additional activity.
- 8.1.2 There does not seem to be any likely material, demonstratable net economic position (either significantly negative or positive) for PC4. Essentially, the propensity for economic impacts to result from compliance with the PC4 provisions are (at a wider economic level) likely to be similar both in relation to costs and benefits (in terms of regulation) to that of compliance with the Operative Plan. This assumes however that there is a need for policy to impact the benefits of HSA at a level that PC4 will in order to address either potential economic or social costs. From an economic viewpoint regulation to address geo-spatial extent and unequal commercial competition is best served with directed provisions targeting specific costs.
- 8.1.3 Consideration of the impact on commercial accommodation providers is difficult to ascertain given both the shock of the 2011 earthquakes and Covid. However, the growth of HSA does not seem to have changed the direction of recovery, at least. At the seasonal peak in 2019 the number of total guest nights was 93%³² of those at the same period in 2010/2011. With occupancy rates not exceeding 75% there appears to be a degree of capacity within these existing establishments.
- 8.1.4 Having said this there is the potential to alter some of the PC4 provisions to either lessen the economic costs or improve the associated economic benefits.

8.2. RECOMMENDED CONSIDERATIONS

- 8.2.1 Outlined below are four key recommended considerations on the PC4 provisions. Importantly these recommendations are predicated on an economic viewpoint only.
- 8.2.2 **1) - Provision 180 days Non-Complying:** From an economic perspective the issue with regards to this approach appears to relate to the inequitable competitive advantage afforded to HSA that distorts the market for commercial accommodation providers.
- Risks: the implementation of this reservation limit may result in an increase in the number of HSA providers to meet the estimated reduction (from currently active) of 18,000 reservation days per annum. Essentially, this could distribute any associated concerns through a larger nominal number and proportion of the housing market.

³² Accommodation Survey: September 2019 Statistics NZ



- 8.2.3 The recommendation would be to implement commercial public costs similar to those placed on commercial accommodation providers (although it is noted that this is beyond what can be done using the RMA?). This would provide a financially 'level' playing field. Any issues with regard to the social costs (e.g. amenity, social cohesion) associated with this level of activity within a residential zone would remain (and would presumably be managed through existing mechanisms such as deterring unhosted use of residences for more than 180 nights and imposing conditions on consent to avoid or limit effects on neighbours?). A remaining potential economic impact is the level of market 'fairness' in allowing potentially commercial activities within residential zones.
- 8.2.4 **2) - Geo-spatial distribution:** A finding of the original report by PEL was that there was a potential economic cost associated with the active geo-spatial distribution of HSA. This found that there was a greater propensity for visitor spend to be accommodated within existing centres (primarily the CBD) when the visitor accommodation was closer to the centre. In assessing the potential costs associated with this PEL found marginal economic benefit for HSA provision around the Christchurch CBD.
- In assessing the geo-spatial differences between the operative provisions and PC4 this assessment found that the removal of permitted activity status for HSA units in the CBD (primarily units under 40sqm) has the effect of reducing the likely provision of HSA accommodation (in terms of reservation days and whole property provision) in and around the CBD.
- 8.2.5 The recommendation would be to provide a more permissive framework for properties within proximity to (primarily) the CBD.
- 8.2.6 **3) - Limitation on number of guests:** With the exception of the potential impact on competition (i.e. potentially impacting on the number of larger properties available) the potential market response will be the provision of additional HSA units to cater for demand.
- 8.2.7 **4) - Limitations of check-in times:** It is unclear the extent of impact of this regulation as specific check in times have not (or are not) been made available.
- 8.2.8 It is important to note that while it is considered that these recommended changes are likely to improve the economic outcomes of PC4 they do not in themselves justify, economically, the overall position of and extent of regulation.