

# Scottish Local Authorities Economic Analysis

A Report to:



May 2022





# Summary

Airbnb boosts local economies and supports Scottish tourism, but expensive and onerous licensing systems risk constraining tourism recovery across local authorities.

- By 2019:
  - **£676 million** Gross Value Added (GVA) and **33,500 jobs** were supported by Airbnb across Scotland
  - one-quarter of this economic impact was in the hospitality sector
- The pandemic has had a severe impact on tourism – confidence is returning but it remains **below pre-pandemic levels**
  - inbound tourism to the UK isn't expected to **recover until 2026**, with Scotland now more reliant on **increasing its competitiveness as a domestic tourism destination**
  - **Airbnb contributes to the Scottish tourism sector by** providing flexibility in visitor accommodation supply to facilitate peaks in demand and large events like Edinburgh Festival
- The combined economic shocks of the **pandemic, rising energy costs and the Russian invasion of Ukraine** have led to a sharp increase in the cost of living which is forecast to continue into 2023/24
- Stringent licensing schemes could further reduce Airbnb's economic impact by between **£32 million** and **£133 million** which would **cost between 1,740 and 7,190 jobs across Scotland**
- The outcome will be influenced by the cost and process of obtaining licenses in each local authority and how they affect guest and host decisions
- This combination of factors could be especially detrimental to **non-professional** hosts for whom Airbnb income supplements their living costs



# Economic Impact of Covid-19 on Tourism





# Economic Impact of Covid-19

Tourism has been severely affected by the pandemic, recovery is underway but uncertainties remain and new challenges are emerging

The economy is **closing the GDP gap** with pre-covid activity levels<sup>1</sup>:

- Economic recovery is forecast to continue in 2022/ early 2023
- Household spending has room to grow, but is challenged by **rising inflation**
- **Lifestyles** are changing
- **Spending patterns** have been radically altered by the pandemic
- **Recovery in tourism is expected to take longer:**
  - World inbound tourism is forecast to return to pre-pandemic levels by 2026<sup>2</sup> (forecast made before the war in Ukraine)
- Recovery in tourism is a **global challenge**, not just confined to Scotland
- Tourism is expected to be the **last sector to recover** from the pandemic

1. Natwest Group (Philip Bartlett, Economist), *The Economic Outlook – What Could it Mean for Tourism?* (November 2021)

2. Euromonitor International (Caroline Bremner, Head of Travel Research), *Future Tourism and Travel Horizons* (November 2021)



# Cost of Living Outlook

## Inflation is rising and putting pressure on household spending

The combined economic shocks of the **pandemic, rising energy costs and the Russian invasion of Ukraine** have led to a sharp increase in the cost of living which is forecast to continue into 2023/24<sup>3</sup>:

- the cost of living in the UK has been rising since early 2021
- in February 2022, inflation reached its highest level in 30 years
- rising prices for food, energy and fuel, combined with rising interest rates will erode household income in real terms

### Forecasters expect inflation to be high in 2022 and to remain high for some time:

- the Office for Budget Responsibility's forecast for March 2022<sup>4</sup> reports that:
  - **inflation will average 8% in 2022/23** (more than double its previous forecast), the highest level in around 40 years
  - household **post-tax incomes will start to fall in real terms** in 2022 and will not be at pre-pandemic level until 2024-25

Consumers are expected to cut back on discretionary spending which has the potential to limit economic recovery in 2022<sup>5</sup>

3. House of Commons Library, 29 March 2022, *Rising Cost of Living in the UK*

4. Office for Budget Responsibility, 23 March 2022, *Economic and Fiscal Outlook*

5. Fraser of Allander Institute, 2022, Q1, *Economic Commentary*



# Tourism Behaviour post Covid-19

“Tourism will suffer a long Covid” in the UK and the overseas visitor market will recover last<sup>6</sup>

Research<sup>7</sup> for the Scottish Tourism Alliance Conference in 2021 reported that:

- By late 2021, UK **public confidence** with most leisure activities was significantly higher than the year before, but:
  - it remained **below pre-pandemic levels**
  - the public are more confident about visiting **outdoor attractions** than indoor spaces
  - **older age groups** are the least comfortable with visiting indoor attractions
- Comfort with going on a **UK holiday is positive**, however:
  - this is less so for city-based destinations
- Domestic tourism may benefit from the continuing uneasiness around taking overseas trips
- Inbound tourism will recover to around **80% of pre-pandemic levels by 2023** and fully recover by 2025/26

6. Association of Leading Visitor Attractions (Bernard Donoghue, Director), *Deeper, Richer, Better* (November 2021)

7. BVA BDRC (Jon Young, Director of Tourism and Leisure), *The Mood of the Nation: Comfortable but Careful* (November 2021)



# Scottish Tourism Outlook (January 2022)

## Public confidence has improved since early 2021 and interest in domestic trips is rising

Since May 2020, the national tourist boards in Great Britain have commissioned quarterly research to track the sentiment and intentions of domestic tourists<sup>9</sup>. The results for November 2021 – January 2022 show that:

- **Public optimism has improved** on the position the previous year, although:
  - a significant proportion of people continue to avoid doing things they would normally have done
  - older age groups are the least comfortable with general leisure activity
- UK and Scottish residents anticipate taking significantly **more overnight trips in 2022**
- Domestic overnight trips continue to be favoured above overseas trips
- Scotland is the fourth most preferred destination in the UK for an overnight trip in winter/spring and second most preferred in Summer
- Scottish residents who intend to travel are more likely to look for **rural and coastal destinations**
- Non-Scotland based residents are more likely to visit the Edinburgh area
- There are signs that **more overnight tourists intend to visit a large Scottish city** than during the previous year
- The **Scottish Highlands has a universal appeal** and is the top destination in Scotland for all visitors

9. VisitScotland,, COVID-19 UK Consumer Tracking Report: Scotland Level Summary, Waves 40-42, 4<sup>th</sup> November 2021 to 10<sup>th</sup> January 2022, published 3<sup>rd</sup> February 2022



# UK Tourism Outlook (March 2022)

Interest in domestic trips is strong, Scotland is popular and so are stays in short-term let properties, however people are concerned about the affordability of travel in the next year

At a UK level, the Covid-19 Consumer Tracker survey for March 2022<sup>8</sup> is picking up growing concerns around the affordability of travel. Based on interviews with 1,500 UK-based adults, it reports that:

- around **73% were confident about taking a UK overnight trip** between April and June 2022
- compared with the February 2022 survey, a **lower proportion** (31%) of those interviewed were planning on taking more trips in the coming year than in the last year
- a higher proportion of adults anticipate taking a domestic trip this Spring or Summer rather than an international trip
- the rising costs of holidays/ leisure was mentioned as **one of the top three barriers** to taking an overnight UK or overseas trip
- of the 12 regions, **Scotland is the 3<sup>rd</sup> most preferred overnight trip destinations** in the UK for Spring 2022
- hotels, private homes, commercial rented property and caravans were equally popular with those interviewed
- guesthouse/ b&b and farmhouses were less popular than the other categories
- of those who did not plan on staying in a city on their next trip, **32% thought that large cities were too expensive**

8. VisitBritain, COVID-19 UK Consumer Tracker; 1<sup>st</sup>-7<sup>th</sup> March 2022,, published 15<sup>th</sup> March 2022





# Scottish Residents' Tourism Outlook

## Domestic residents' interest in taking trips in Scotland fell as a result of the pandemic

A survey of residents in Scotland was carried out by VisitScotland in June 2021<sup>10</sup>. It reported that:

- there was a **significant decrease** in their likelihood of taking holidays and short breaks in Scotland compared to before the pandemic
- most people were planning on taking either the **same number or fewer trips** than before the pandemic
- the decline of appeal in Scotland among Scottish residents was higher among lapsed visitors and empty nesters/ older independents, however domestic holidays were still popular among families and young independents
- Scottish residents expected to take fewer trips than in “normal times”
- the challenges cited were:
  - worries about restrictions
  - the cost of the trip, and
  - fear of having to cancel because of Covid-19
- VisitScotland have launched a multi-channel marketing campaign, “Scotland is Calling” to support the recovery

10. VisitScotland, *Impact of COVID-19 on UK and Ireland Markets: Scotland Residents' Views*



# Economic & Tourism Outlook: Impact on Airbnb Hosts

Recovery has begun, but new and significant challenges are emerging which will stall previous forecasts

- Economic recovery is well underway, however significant **new economic challenges** are emerging
- The **cost of living is rising** and will impact discretionary household spending, which includes leisure and tourism
- Survey evidence suggests a growing concern around the **affordability of travel**
- The UK market for domestic tourism is relatively optimistic, mainly so for **rural and coastal** areas and less so for cities
- Inbound tourism is expected to take **longer to recover** than domestic tourism
- Demand from Scottish residents for short breaks in Scotland is **weaker than pre-pandemic levels**
- This combination of factors could be especially detrimental to **non-professional** hosts for whom Airbnb income supplements their living costs; i.e. they rent out a room in their home, or offer a few nights per year on the platform
- The cost of licensing could affect this group disproportionately



# Potential Effects of the Licensing System





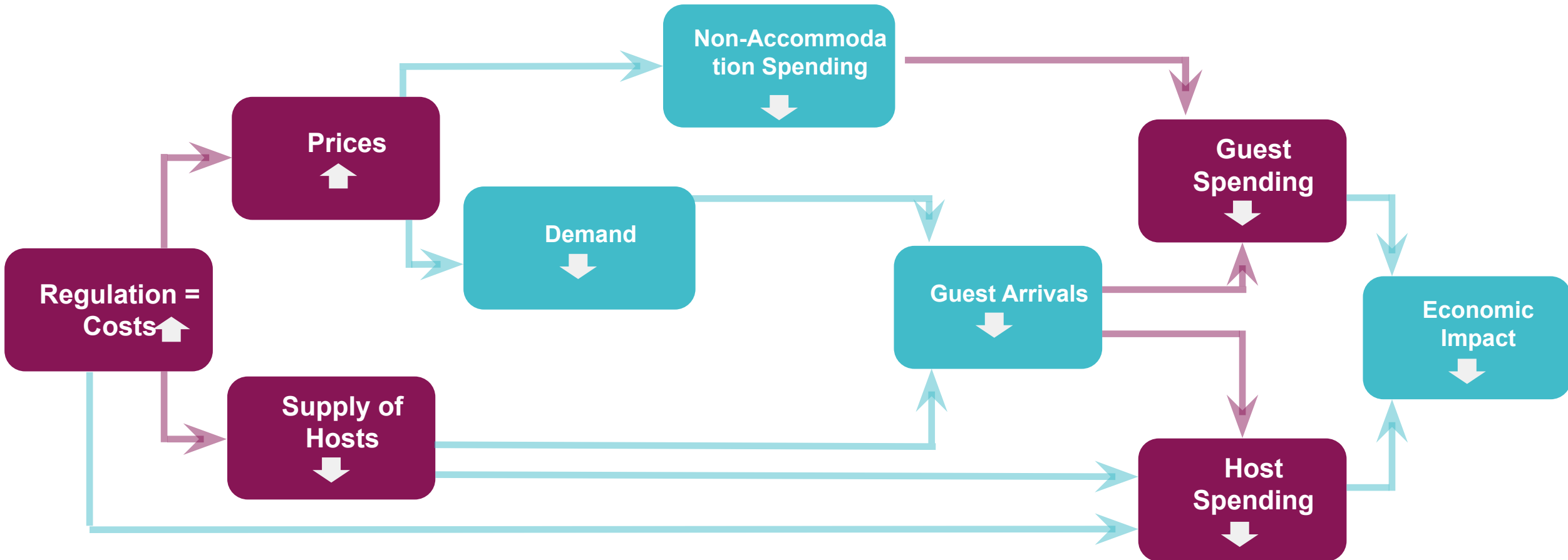
# New Legislation

## Two legislative changes have been introduced to regulate the short-term lets sector in Scotland

- **The Licensing Order** - has been introduced to improve the safety of short-term let accommodation for guests and for neighbours: all short-term let operators will need to apply for a licence and renew this every 1 to 3 years, depending on local authority requirements
- **Control Area Legislation** – gives the 32 local authorities discretionary powers to address the impact of hotspots of short-term let activity on local communities. Within the Control Areas, if a listing requires planning permission because it is a second home, this must be obtained before the host can apply for a licence for each of their short-term let properties
- The City of Edinburgh was designated as a control area in February 2022. Plans are progressing to introduce this status in Badenoch and Strathspey
- All short-term let operators must be licensed by 31 June 2024



# Logic Chain for Economic Impacts of Licensing





# Guest Spending

Reductions in guest spending will be determined by how much of the cost of the new system is passed on to Airbnb users (in increased prices)

- Based on existing HMO licensing in Scotland, the **cost of a licence may vary** among local authorities by between £300 and £1,000, with renewal required every 1 to 3 years
- In addition, the cost of meeting the mandatory conditions of the new licensing order are estimated to be around **£300 per annum**, excluding one-off and long-term costs
- If the cost of both the licence and the new safety regulations are transferred entirely to guests, the increased cost would be shared amongst guests, with the total cost to guests varying with the annual cost of the license fee and the number of guests visiting
- Dividing the possible costs of licence fees among the average Airbnb guests to each local authority gives the amount of money guests would be spending on the licence fee (in the form of increased prices)
- It is assumed that guest spending in the economy will reduce by the increase in the cost of accommodation
- The amount that each guest would be spending on the licence fee, and therefore not spending in the economy, can be expressed as a percentage of average guest spending
- Given the variance in the possible cost of the licence fee, and the varying numbers of guests by local authority, it was estimated that guest spending could **fall by between 3% and 5%**



# Airbnb Nights

## Changes in demand for and supply of Airbnb accommodation could lead to a reduction in nights

- Scottish Government (2021)\* research found average price elasticity of demand for destinations in Europe of **-1.26**
  - This means that, when the price of European travel increases by 1%, demand to travel there falls by 1.26%
- Therefore, if the cost of the licence fee and mandatory conditions is placed entirely on guests, the demand for Airbnb accommodation would reduce by between approximately 5% and 15%, depending on the cost of the licence
- However, the effect that the new licensing system may have on the behaviour of hosts should also be considered
  - If the cost of the new licensing system is placed entirely on hosts, in some areas, such as Edinburgh and Highland, licence costs would represent a small share of the average host income earned through Airbnb in that area
  - However, these areas will include some hosts who make less than the average income, for example if their property is only available on Airbnb for a limited time each year
  - These hosts may be more likely to remove their property from the platform
  - The supply available is a major driver of tourists to use Airbnb, so this would contribute to a reduction in nights
- By considering the effect on demand of increased costs to guests and reduced supply, it was estimated that, at the lower level, Airbnb nights could **fall by 10%**

\* Scottish Government (July 2021), *Review of Evidence of Elasticities Relevant to Tourism in Scotland*



# Airbnb Nights

## Changes in demand for and supply of Airbnb accommodation could lead to a significant reduction in nights in some areas

- In some areas, the licence fee could represent a more significant share of average host income
- This would be the case most predominantly in areas where guest arrivals are generally lower
- Furthermore, for hosts in these areas who make below the average income in their local authority, licence fees may cost the entirety of their income made through Airbnb
- It is therefore likely that, in these areas, a large share of hosts could leave the platform as a result of the implementation of licence fees
- As a major incentive for Airbnb guests is the range of available supply, a significant number of hosts leaving would likely result in a larger reduction in Airbnb nights
- By considering the potential effect of a larger number of hosts leaving, as well as the increase cost to guests, it was estimated that, at the upper level, Airbnb nights could **fall by 50%**





# 10% fall in Nights and 3% fall in Guest Spending

## Reduction in Airbnb nights and guest spending could have differential impact by area

- A reduction in Airbnb nights of 10% and a fall in guest spending of 3% could lead to a reduction in GVA of **£32 million** and a loss of **1,740 jobs** in Scotland
- Large disparities in the scale of loss would be expected across local authorities in Scotland:
  - the greatest losses would be in:
    - Highland: £8 million GVA and 430 jobs
    - City of Edinburgh: £6 million GVA and 340 jobs
  - the smallest loss would be in:
    - East Renfrewshire: £24,000 GVA and one job



# 25% fall in Nights and 4% fall in Guest Spending

## Reduction in Airbnb nights and guest spending could have differential impact by area

- A reduction in Airbnb nights of 25% and a fall in guest spending of 4% could lead to a reduction in GVA of **£71 million** and a loss of **3,830 jobs** in Scotland
- large disparities would be expected in the scale of loss across local authorities in Scotland:
  - the greatest losses would be in:
    - Highland: £18 million GVA and 950 jobs
    - City of Edinburgh: £14 million GVA and 740 jobs
  - the smallest loss would be in:
    - East Renfrewshire: £54,000 GVA and three jobs



# 50% fall in Nights and 5% fall in Guest Spending

## Reduction in Airbnb nights and guest spending could have differential impact by area

- A reduction in Airbnb nights of 50% and a fall in guest spending of 5% could lead to a reduction in GVA of **£133 million** and the loss of **7,190 jobs** in Scotland
- It is expected that there would be large disparities in the scale of loss across local authorities in Scotland:
  - the greatest losses would be in:
    - Highland: £33 million GVA and 1,780 jobs
    - City of Edinburgh: £26 million GVA and 1,390 jobs
  - the smallest loss would be in:
    - East Renfrewshire: £101,000 GVA and five jobs



# Potential GVA and Jobs Losses from Licensing System

	10% fall in Nights, 3% fall in Guest Spending		25% fall in Nights, 4% fall in Guest Spending		50% fall in Nights, 5% fall in Guest Spending	
Local Authority	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs
Aberdeen City	-0.6	-30	-1.3	-70	-2.5	-140
Aberdeenshire	-0.9	-50	-2.0	-110	-3.7	-200
Angus	-0.3	-10	-0.6	-30	-1.1	-60
Argyll and Bute	-1.7	-90	-3.8	-200	-7.1	-380
City of Edinburgh	-6.2	-340	-13.7	-740	-25.6	-1,390
Clackmannanshire	<-0.1	<-10	-0.1	-10	-0.2	-10
Dumfries and Galloway	-0.8	-40	-1.7	-90	-3.1	-170
Dundee City	-0.2	-10	-0.4	-20	-0.7	-40
East Ayrshire	-0.1	-10	-0.2	-10	-0.3	-20
East Dunbartonshire	-0.1	<-10	-0.1	-10	-0.2	-10
East Lothian	-0.6	-30	-1.3	-70	-2.4	-130



# Potential GVA and Jobs Losses from Licensing System

	10% fall in Nights, 3% fall in Guest Spending		25% fall in Nights, 4% fall in Guest Spending		50% fall in Nights, 5% fall in Guest Spending	
Local Authority	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs
East Renfrewshire	<-0.1	<-10	-0.1	<-10	-0.1	-10
Falkirk	-0.1	<-10	-0.1	-10	-0.2	-10
Fife	-1.5	-80	-3.2	-180	-6.1	-330
Glasgow City	-1.5	-80	-3.2	-180	-6.1	-330
Highland	-7.9	-430	-17.5	-950	-32.9	-1,780
Inverclyde	-0.1	<-10	-0.1	-10	-0.3	-20
Midlothian	-0.2	-10	-0.5	-30	-1.0	-50
Moray	-0.6	-30	-1.3	-70	-2.4	-130
Na h-Eileanan Siar	-0.6	-30	-1.2	-70	-2.3	-120
North Ayrshire	-0.3	-20	-0.7	-40	-1.4	-70
North Lanarkshire	-0.1	-10	-0.3	-10	-0.5	-30



# Potential GVA and Jobs Losses from Licensing System

	10% fall in Nights, 3% fall in Guest Spending		25% fall in Nights, 4% fall in Guest Spending		50% fall in Nights, 5% fall in Guest Spending	
Local Authority	GVA (£m)	Jobs	GVA (£m)	Jobs	GVA (£m)	Jobs
Orkney Islands	0.2	-10	-0.5	-30	-1.0	-60
Perth and Kinross	-1.1	-60	-2.3	-130	-4.4	-240
Renfrewshire	-0.1	-10	-0.2	-10	-0.5	-30
Scottish Borders	-0.5	-30	-1.1	-60	-2.1	-110
Shetland Islands	-0.2	-10	-0.4	-20	-0.7	-40
South Ayrshire	-0.3	-20	-0.6	-30	-1.2	-60
South Lanarkshire	-0.2	-10	-0.4	-20	-0.7	-40
Stirling	-0.6	-30	-1.4	-70	-2.5	-140
West Dunbartonshire	-0.2	-10	-0.4	-20	-0.7	-40
West Lothian	-0.1	-10	-0.2	-10	-0.4	-20
<b>Scotland</b>	<b>-32.1</b>	<b>-1,740</b>	<b>-70.8</b>	<b>-3,830</b>	<b>-132.8</b>	<b>-7,190</b>



# Conclusion

## The impact supported by Airbnb could be significantly affected by the new legislation

- Airbnb's impact in Scotland fell by £368 million GVA (-54%) and the number of jobs it supported fell by around 18,610 (-56%) as a result of the Covid-19 pandemic
- Tourism is now recovering, however inbound tourism is not forecast to return to pre-pandemic levels until 2026
- The licensing system is likely to result in changes to hosts decisions to remain on the platform, demand for Airbnb accommodation and guest spending
- Three scenarios have been estimated which give a range of likely impacts on the Scottish economy:
  - *-10% Nights & -3% Guest Spend*: would reduce Airbnb's impact by **£32 million GVA** and **1,740 jobs**
  - *-25% Nights & -4% Guest Spend*: would reduce Airbnb's impact by **£71 million GVA** and **3,830 jobs**
  - *-50% Nights & -5% Guest Spend*: would reduce Airbnb's impact by **£133 million GVA** and **7,190 jobs**
- Which scenario will depend on the cost - and also critically the process - of the licenses and how they affect guest and host decisions
- These scenarios do not account for the potential impact of Control Area legislation and the likely reduction in the supply of short-term lets it could create in areas where it is applied



# Contact

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