

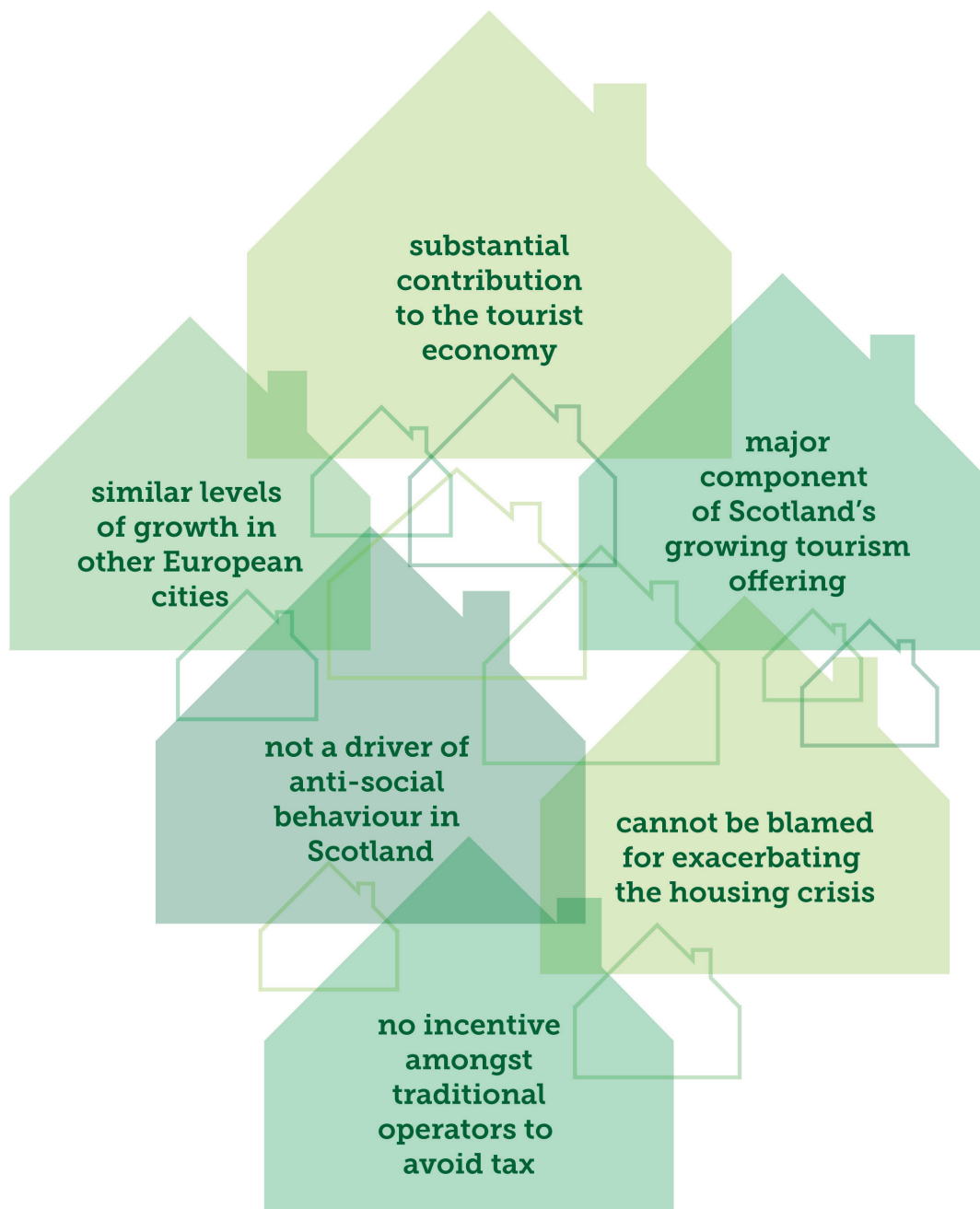


Far More Than Just Houses: The Benefits of the Short-Term Rental Sector to Scotland

**A report by Frontline for
The Association of Scotland's Self-Caterers**

June 2018

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Far More Than Just Houses: The Benefits of the Short-Term Rental Sector to Scotland

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Executive Summary

The short-term rental (STR) sector has recently been the subject of increasing political and media criticism.

The Association of Scotland's Self-Caterers (ASSC) commissioned Frontline Consultants Ltd (Frontline) to produce an evidence base to investigate these criticisms and demonstrate the sector's impact on key areas across Scotland.

Frontline's research has shown:

- **STR is a major component of Scotland's growing tourism offering, making a substantial contribution to the tourist economy.** Any regulations pursued by the Scottish Government should be arrived at through negotiation and dialogue with platforms and traditional operators, learning from best practice elsewhere in Europe
- **STR cannot be blamed for exacerbating the housing crisis as other longstanding issues are of far greater significance** (i.e. the number of empty properties in Scotland, or the failure of governments to build sufficient levels of affordable housing)
- **Traditional STR operators do not have an incentive to avoid tax and all survey respondents confirmed paying some form of tax.** Airbnb data suggests a similar lack of incentive for hosts who have average earnings below the tax thresholds
- **The STR sector is not a driver of anti-social behaviour in Scotland** as the number of recorded complaints are negligible in comparison to the number of self-catering units/properties let
- **The STR Sector has seen a similar level of growth in other European cities and many countries are embracing STR,** implementing systems and legislation to make it simpler for their citizens to operate in this sector

It is clear that countries and cities are working with the STR sector and Collaborative Economy (CE) platforms to keep up with the ever-growing level of tourism across the globe. As more and more people travel and as technology continually advances, policy-makers, STR operators and CE platforms must continue to work together, share knowledge and adapt when there are any significant detrimental effects on the social, economic or environmental fabric of an area.

The claims that the STR sector is expanding uncontrollably as a result of CE platforms, driving people out of housing areas, driving up antisocial behaviour and avoiding tax are simply unfounded. The claims in themselves potentially threaten the ability of the STR sector to play a role in supporting tourism growth across Scotland, in part benefiting from the technological advancements offered by CE platforms.

Information exchange across all parties, policy-makers, businesses and CE platforms is crucial and this study confirms this is occurring and should continue to ensure the sustainable growth of the tourism economy in Scotland.

1 Introduction

1.1 Background

The STR Sector has a long history in Scotland and should not be considered to be the same as the emerging collaborative economy (CE) model of STR that is perceived by some to be causing problems in city centres. Indeed, many misconceptions surrounding STRs have appeared as a direct result of the exponential growth of online platforms such as Airbnb. The lines are blurry, however, with many traditional operators now using the collaborative model as part of their route to market.

Overall, there are **four different models of STR** operation, running alongside each other:



1. Traditional self-catering STR (non-serviced accommodation)
2. Collaborative Economy STR via online platforms (Airbnb, Booking.com, HomeAway, HouseTrip etc) (largely non-serviced accommodation)
3. Serviced apartments (a type of furnished apartment available for short-term or long-term stays, which provide amenities along the same lines as a traditional hotel) (serviced accommodation)
4. Apart hotels (serviced accommodation)

It is also critical to understand the difference between professional/full time operators of STR and the amateur or peer-to-peer/part-time players when looking at this as a sector.

The ASSC recently published an economic impact assessment study of the traditional self-catering sector to the Scottish economy¹. The aim of the study was to provide an independent, evidence-based understanding of the direct and indirect economic impact/contribution of the self-catering sector to the Scottish economy.

1.2 Research objectives

The objectives of our research were to understand:

- the role of STR and the Collaborative Economy (CE), in a wider tourism context
- whether STR is having an impact on housing stock
- whether antisocial behaviour is increasing as a result of STR
- whether STR operators are actively avoiding tax

¹ <https://www.assc.co.uk/about-us/assc-economic-impact-assessment-short-term-lettings-scottish-economy/>

- what other cities and countries across Europe are doing to support the development and minimise the potential impact of CE platforms

This report is structured around these objectives.

1.3 Approach

The approach to the research was three-fold:

1. desk review – detailed review of current publications and wider web sources which are referenced throughout this report
2. stakeholder interviews – consultations across industry stakeholders, platform providers and agencies
3. operators – survey of Scottish STR operators across ASSC members and non-members (268 responses received)

All evidence used throughout this report was taken from reliable sources and directly from operators and stakeholders. Data was provided by Airbnb and SuperControl to show the STR trends aligned to collaborative economy (CE) and traditional platforms respectively. We consider Airbnb to be representative of the CE, although we recognise that there are many other players. We note that previous reports on STR have not provided a balanced view of their impact in Scotland as they have not relied on sufficiently robust evidence; no data-scraped 'evidence' has been used in this report.

2 Context

2.1 Tourism in the UK

VisitBritain's latest estimates for 2017 include:

- 39.9m visits, an increase of 6.2% on 2016
- the forecast for spending by visitors was £25.1bn, an 11.6% increase on 2016

VisitBritain's forecast for 2018 include:

- 41.7m visits, an increase of 4.4% on 2017
- £26.9bn in visitor spending, an increase of 6.8% on 2017

VisitBritain has announced² that 2017 was a record year for inbound tourism to the UK, and with growth set to continue in 2018. **The importance of tourism to the UK economy cannot be under-played.**

2.2 Tourism and self-catering in Scotland

In 2016, there were 14.45 million tourism trips to Scotland; the domestic market accounted for 81% with overseas tourism accounting for the remaining trips. The months of July to September were the most popular for holidays in Scotland amongst both UK and overseas visitors, during which time 28% of domestic trips and 40% of overseas trips were made.

The latest report from VisitScotland for the period January 2017 – September 2017 indicated that **domestic tourism in Scotland was up 9% in volume and 13% in value** compared to 2016. Similarly, international tourism was up 15% in volume and 18% in expenditure. Another record year seems to be on the cards!

Full year figures (2017) are available from the Association of Scottish Visitor Attractions (ASVA)³ and these confirm that **over 30 million visits were made to attractions in Scotland in 2017, a rise of 9.7% over 2016. Overall, 77% of attractions reported an increase on the 2016 figures, with a significant number noting that 2017 was their "best year to date"**. This confirms that 2017 was yet another significant year for tourism in Scotland.

Tourism forms an important part of Scotland's economy, **with tourism businesses generating a combined turnover of £7bn** (3% of Scotland's turnover), employing 211,000 people (12% of Scotland's workforce), and contributing £3.8bn in GVA terms (4% of Scottish GVA)⁴.

Self-catering or STR is an important component of the tourism sector and estimates from VisitScotland⁵ show that approximately 17% of all tourist visitors stay in self-catering accommodation. Considering the strong likelihood of further tourism growth across the UK, and in Scotland in particular, STR will play an important role in accommodating ever-increasing number of visitors to and within Scotland.

Table 2.1 shows the importance of STR across key tourism destinations. With Scotland likely to have experienced a significant increase in overnight and

² <https://www.visitbritain.org/tourists-uk-forecast-spend-record-level-2018>

³ ASVA, Visitor Trends Report, 2017

⁴ Scottish Annual Business Statistics, Scottish Government, 2017

⁵ Tourism in Scotland's Regions, VisitScotland, 2016

international tourism in 2017 and with forecasts suggesting sustained growth, this sub-sector should therefore be supported.

Table 2.1: Self-Catering Trips as a Proportion of All Trips

	% Self-Catering
Aberdeen and Grampian	15%
Edinburgh & Lothians	36%
Glasgow and Clyde Valley	2%
Kingdom of Fife	9%
Highlands and Islands	39%
Perthshire	19%

2.3 Self-catering or short-term rental: definitions and thresholds

The STR sector sits between domestic housing and commercial. The sector is defined in both camps, depending on who is defining it:

- *available for let* for under 140 days means the property is in the Council Tax system; *available for let* for over 140 days places the property in the Non-Domestic Business Rates system
- to qualify as trading businesses under the Furnished Holiday Let (FHL) tax rules, a property must be *available for let* for 210 days and *actually let* for 105 days.
- lets over 35 days have different VAT treatment (for VAT registered businesses)
- holiday letting property is classed as domestic by HMRC in relation to VAT on fuel and electricity. (VAT Notice 701/19 Fuel and Power, Section 3.22)
- for holiday lets, there is no formal tenancy as such, with visitors being covered by Section 12 (2) and paragraph 8 of Schedule 4 of the Housing (Scotland) Act 1988. This is cited by most operators in their terms and conditions but is now superseded by the Private Housing (Tenancies) (Scotland) Act 2016

Where a room only is let, the owner-occupiers, or tenants (owners), are responsible for declaring their income (minus any expenditure) for tax purposes. Owners can opt into the HMRC approved 'Rent a Room' scheme which allows for a tax-free allowance of £7,500 per annum, or £3,750 if letting jointly. Owners must also consider if this is the best approach as expenditure can be off-set against rental income.

When reviewing these definitions, the majority of traditional STR providers are those who rent a property year round and therefore pay tax, through Council Tax, or, more likely, through business rates (as per thresholds above).

When a self-caterer uses a collaborative platform such as Booking.com or Airbnb, they are still subject to the thresholds described above. This is in contrast to peer-to-peer operators and those renting a room using a CE platform, who are generally subject to tax through personal income tax and local authority Council Tax.

2.4 Economic impact of traditional short-term rental on the Scottish economy

During 2016/17, ASSC commissioned Frontline to assess the economic impact of traditional STR on the Scottish economy. The research focused on non-serviced STR and excluded the sharing online STR economy platforms such as Airbnb, Homeaway, and serviced apartments and aparthotels.

From the Frontline report, the impact of STR on the Scottish economy can be summarised as follows:

- 16,692 properties
- 3.4m visitor nights
- £723.3m of visitor spend of which 43% (£312.8m) is in accommodation
- 15,271 FTE jobs
- £293.1m of GVA

Over and above the accommodation, visitors staying in STR also spend money on:

- travel: £118.5m to and from property and £45.1m during stay
- food and drink: £66.3m in bars, cafes, restaurants; £63.1m in supermarkets; £27.5m in local shops
- other shopping: £48.0m
- visitor attractions: £24.8m
- outdoor recreation: £17.1m

From this we can see that traditional STR has a considerable impact on the Scottish economy, of which less than half (43%) relates directly to accommodation. With the projected growth in tourism required to meet the Scottish Tourism Strategy targets⁶, which aim to grow visitor spend in Scotland by £1bn (from £4.5bn to £5.5bn) by 2020, this will increase the role of STR as a core part of this sector. From the operator survey,⁷ over half (57%) of respondents reported an increase in the number of rental nights over the last five years and 41% expected a further increase in the next five years.

In 2016, host and guest activity on Airbnb generated £499m for the Scottish economy.⁸ The average annual typical earning of a host was £3,600, with the total income earned being £68m.⁹ Additionally, there were one million inbound guests between March 2016 and March 2017, and Edinburgh in particular saw 411,000 inbound guests in the same period. According to a report on the CE, the rise of this in the accommodation sector is partly fuelled by visitors wanting to 'live like a local'.¹⁰ The impact of STR on the Scottish economy, particularly in helping meet tourism targets, will increase substantially over the next 5 to 10 years.

⁶ Scottish Tourism Alliance, Tourism Scotland 2020, 2012

⁷ STR Operator Survey, Frontline 2018

⁸ Airbnb: Introduction to Airbnb in Scotland

⁹ Airbnb: Overview of the Airbnb community in Scotland

¹⁰ Scottish Enterprise: The Collaborative Economy and Scottish Tourism, executive summary, p81

2.5 Trends and developments in the tourism collaborative economy

The CE¹¹ connects individuals and communities via online platforms, enabling the sharing or provision of goods and services, assets and resources, without the need for ownership. It has grown exponentially over recent years, producing a significant impact on several sectors of the global economy, including tourism.

According to a recent report by PwC¹², the CE has generated revenues of €3.6bn across Europe; peer-to-peer (P2P) accommodation represented 32% of this. The UK has emerged as a hub for the sharing economy within the region and contributed to around a third of this activity in 2015.

The pace of growth has accelerated significantly in the last few years, **with platforms estimated to have more than doubled their revenues in Europe between 2013 and 2015.** In a prior report¹³, PwC estimated that by 2025, the CE could generate global revenues of \$335bn.

The UK's sharing economy has **grown at the fastest rate in Europe**, with transactions almost doubling to £7.4bn in 2015, and platforms taking home £850m of this total.

PwC describe P2P accommodation as households sharing access to unused space in their home or renting out a holiday home to travellers, but also includes commercial lettings. They estimate that this is the largest sector of the CE in Europe at €15.1bn by transaction value.

The recent Scottish Government report on the CE¹⁴ found that 35% of adults have used a collaborative platform, and that this was highest in the 18-34 age bracket. However, from this we see that tourism activity related to home sharing was only highlighted by 21%, which was considerably behind the purchase of second hand goods at 46%.

According to Skift¹⁵, the biggest P2P accommodation platforms with listings in Scotland include:

- Airbnb: 21,900 active listings¹⁶ and 12,600 hosts¹⁷ in Scotland
- Couchsurfing: 64,500 hosts in Scotland of which 11,000 in Edinburgh
- Flipkey: 7,000 listings in Scotland
- Homeaway: 2,500 listings in Scotland
- Housetrip: 7,000 listings in Scotland
- Wimdu: under 1,000 listings¹⁸

A report, *The Collaborative Economy and Scottish Tourism*¹⁹ was commissioned by Scottish Enterprise, in partnership with the Scottish Government and the Scottish Tourism Alliance, to understand the scale and the opportunity of the CE and Scottish tourism.

This was published in January 2018. Pertinent to this research was the difficulty in accurately defining and measuring the sector and its component parts, and its relationship with the more traditional volume and value measures of tourism in Scotland

¹¹ The Scottish Government has opted to use the term 'collaborative economy' as one which encompasses the nature of users, providers and transactions which take place.

¹² Assessing the size and presence of the collaborative economy in Europe, 2016

¹³ PwC, The Sharing Economy Grows Up, 2015, <http://www.pwc.co.uk/issues/megatrends/collisions/sharingeconomy/the-sharing-economy-sizing-the-revenue-opportunity.html>

¹⁴ Scottish Expert Advisory Panel, Collaborative Economy Evidence Paper, 2018

¹⁵ Skift, The State of the Global Vacation Rental Market, 2017

¹⁶ Airbnb, UK Insights Report, 2017

¹⁷ Airbnb, Overview of Airbnb in Scotland, 2017

¹⁸ All figures except Airbnb are approximate and are based on November 2017 figures

¹⁹ Scottish Enterprise: The Collaborative Economy and Scottish Tourism, Exec Summary, p2

2.6 What the traditional short-term rental operators are saying

In order to gain more insight into STR and the CE, based on the lack of official statistics and research in this area, Frontline carried out a survey of traditional STR operators including ASSC members and non-members during February and March 2018.

The following feedback was provided by **268 respondents**:

- 61% operate multiple properties; only 1% rented a private room
- 42% operate in city centre/urban areas
- 37% state this was their sole income, and 53% an additional income
- 85% rent for over 140 days per annum and 90% met FHL levels
- 81% pay business rates only, 9% Council Tax only, 10% pay both
- most frequent routes to market: own website (88%); word of mouth/repeat business (81%); group platform (76%); collaborative economy (CE) platform (67%); social media (65%)
- most frequent CE platforms: Airbnb (60%); Trip Advisor (55%); Holiday Lettings (41%); Booking.com (41%)
- most frequent additional routes to market: VisitScotland (88%); EmbraceScotland (69%)
- maturity of route to market:
 - website – 70% over 5 years, 19% 2-5 years
 - group platform – 68% over 5 years, 21% 2-5 years
 - CE platform – 34% over 5 years, 43% 2-5 years
 - Social media – 26% over 5 years, 44% 2-5 years

One of the key findings from this research was the increasingly important role played by collaborative platforms as a route to market for operators - with 67% calling it an important marketing avenue. There was a wide range of collaborative platforms being used, notably Airbnb and TripAdvisor, but others were also quoted. The survey also highlighted the growing importance of collaborative platforms, and social media, having both increased by around 43% over the last 2 to 5 years.

These results confirm the significance of the CE, and although traditional forms of marketing and bookings are important, there is a definite shift towards CE platforms and the evidence suggests this will continue.

2.7 What the platforms are saying

While there are a range of collaborative platforms supporting tourism and in particular tourism accommodation, the largest and most prominent one is Airbnb and as such we have used data provided directly from them. Data was also accessed from SuperControl, a leading Scottish based booking and channel management software provider. SuperControl integrates with Airbnb, so some data will be duplicated.

Airbnb has listings in 191 countries and has worked with key agencies in Scotland over the last 12–18 months by supplying facts, figures and forecasts, as well as feedback from hosts and customers, to help establish a better understanding of the sector and guide future policy.

For these reasons, this research has reviewed data submitted by Airbnb²⁰ in 2017 including a further position paper developed for this research in 2018²¹. These reports provide a useful insight into Airbnb's community of hosts and guests in Scotland, especially in Edinburgh.

The key findings include:

Airbnb hosts:

- 12,600 hosts – of which 5,400 (43%) in Edinburgh
- median nights hosted: 40
- 76% rented primary or secondary home
- 41% relied on Airbnb income to make ends meet
- listings by type: 58% entire home, 41% private room, 1% shared room
- total income earned by host community: £68m
- on average, hosts earn £3,600 a year via the platform (£3,900 in Edinburgh)
- the average age of a host in Scotland was 48, five years higher than the national average
- a large proportion of hosts are non-traditional workers; almost a third of hosts (32%) are self-employed
- almost a third of hosts (29%) are in full-time employment
- over the last year, hosts in Scotland welcomed over 1,000,000 guests into their homes, typically sharing their space for 38 nights per year, which equates to 3 nights per month; this is lower than the UK average of 50 nights a year
- the majority (54%) of listings across Scotland were booked on Airbnb for under 30 nights a year. This activity was also reflected in urban markets, including Edinburgh (53%)
- a small percentage (21%) of listings in Edinburgh were booked for over 90 nights and 9% of listings were hosted for over 180 nights

Airbnb listings:

- there were 21,900 active listings across Scotland, out of a total 168,000 in the UK
- the majority (59%) of listings in Scotland were entire homes but a large percentage (40%) of listings were spare rooms
- the Highlands was Scotland's second most popular listing destination. Listings in the area are now higher than Glasgow and rose by 81% in the past year
- as of 1st July 2017, Edinburgh has 9,000 listings in the city region. Listings in Edinburgh have grown by an average 43% year on year, which is relatively in line with Scotland's top five destinations
- in the top five Scottish destinations, more than three quarters of hosts (78%) have one listing on the platform, with 92% of hosts sharing their space in 1-2 listings
- hosts with multiple listings were in the absolute minority. Hosts with 5+ properties accounted for just 2% of the total host community, but this indicates an interest from the more traditional players in using the platform as a new channel to consumers

Airbnb guests:

- 802,000 guests – of which 411,000 (51%) in Edinburgh (where there was 90% growth on previous year), with more than 70,000 during the Festival
- average length of stay: 2.8 nights

²⁰ Airbnb, Overview of the Airbnb community in Scotland,

²¹ Airbnb, The Collaborative Economy and Tourism in Scotland

- average travel party size: 2.5 people
- 87% visited Scotland for vacation and leisure
- 30% said they would not have come or stayed as long without Airbnb
- 45% from UK, 27% from Rest of Europe, 16% from North America
- 47% of guest spending occurred in the neighbourhood where they stayed
- estimated total spent by guests using Airbnb in Scotland: £293m
- the total economic activity generated by hosts and guests amounted to £499m
- a 104% inbound guest growth rate resulted in guests spending an estimated £1.4m per day in Scotland over the past year
- Edinburgh was the most popular destination in Scotland for guests in the past year, with 496,000 arrivals in the city
- 45% of Airbnb guests travelled to Scotland July-September last year
- April-June and October-December had a consistent number of visitors, amounting to 23% and 22% respectively

Findings from **SuperControl** state:

- there were 2,024 listings of STR in 2015, 2,436 in 2016 and 3,013 in 2017 and currently there are now 4,263 active listings
- 25% of SuperControl clients utilise collaborative platforms as a route to market
- the main platforms included Booking.com, Airbnb, HomeAway and TripAdvisor. Although it was noted that 75% of bookings were sourced direct from their own website
- the total number of nights booked through the system in 2017 was 93,000, with an average number of nights/host period was 5.8 nights

Again, this shows the extent of the growth in self-catering bookings/listings, however the SuperControl figures also indicate that many businesses continue to be reliant on traditional routes to market for their bookings i.e. their own website or by telephone.

Overall, this highlights the scale and growth of the largest CE platform operating in the tourism accommodation market. As well as corroborating the findings from the ASSC operator survey, as to the scale and growth of the bookings being made through these platforms.

2.8 In summary

Tourism in the UK has never been more valuable and record levels of trips and expenditure were achieved in 2016, 2017 and records are set to be broken again in 2018. **In Scotland, the latest figures for 2017 suggest the full year figures are also going to outstrip those achieved in 2016.**

The sector is a valuable provider of jobs and revenue across Scotland. The STR sector itself is an important component of the tourism sector, most notably in Edinburgh, the Highlands and in Perthshire, accounting for upwards of 20% to 40% of all overnight trips in each location. **The economic value of STR on the Scottish economy in 2017 included 15,271 FTE jobs and £293.1m of GVA.**

The way bookings have been made in the self-catering sector has changed as technology has advanced and consumer booking habits altered. A significant shift over the last ten years has been the growth of CE platforms such as Airbnb as a route to market and this looks set to continue.

The growth in tourism, the vital role of self-catering and STR and their resultant economic impact cannot be underestimated. Technological advancements, as well as traditional marketing efforts, have allowed them to

continue to grow, and their economic role is assisting Scotland's move towards the targets set in Tourism 2020.

This growth has come with a number of misconceptions, including about the impact the sector is having on the housing market and antisocial behaviour concerns as well as suggestions of tax avoidance and/or evasion. Each of these concerns is addressed in the following sections, including a review of experiences from other cities and countries.

3 Housing Market Concerns

3.1 Introduction

There have been concerns raised over the impact of increasing tourism and the growth of STR on the housing market. A review of the housing market environment has been undertaken to understand the factors driving market demand and supply, and to ascertain whether these concerns are valid.

3.2 The housing sector and self-catering effects

"Our housing system is based on an ineffective model that does not address housing need in areas where there is a chronic shortage of homes."

Andy Wightman MSP²²

Scotland's population is currently at its highest level; the population expanded by 4.6% between 2001 and 2011 and is forecast to grow by another 5.3% by 2041²³. **Household numbers are expected to increase from 2.5 million in 2019 to 2.8 million in 2039, i.e. 260,500 households, representing a 9% increase²⁴.** The housing sector will therefore continue to face challenges in meeting supply targets.

When housing demand and the level of empty housing is set against the 16,692 self-catering units²⁵, it suggests self-catering activity is not of a scale sufficient to affect housing supply issues in Scotland. Furthermore, Airbnb data reveals entire home listings account for less than 2.5% of housing stock in Edinburgh; this decreases to 0.6% of housing stock at a Scottish level.

Population growth estimates and household projections are significant and current trends are as a result of natural change: an increasing birth rate, an ageing population, and increased net-migration. It is these factors alone which are cited as being responsible for the strain on Scotland's housing market. The social and economic consequences²⁶ of this are demonstrable:

- 60,000 households in Scotland estimated to be over-crowded
- 39% of households in Scotland assessed as being in fuel poverty
- 50% of housing falling short of the Scottish Housing Quality Standard
- 37,000 empty homes, according to Scottish Government, 79,000 according to National Records
- if prices had risen in line with inflation from 1970 to 2012 the average house price would have been £78k, in reality it was £215k

The imbalance in demand and supply is particularly apparent in areas which have the twin issue of natural change (more births than deaths) and net-migration (where inward migration is greater than outward migration). The City of Edinburgh is an example of one such local authority that is witnessing the dual impact of an increasing indigenous population, as well as an increasing level of net-migration.

²² Greens.scot: Statistics show need for rethink of government policies to tackle Scotland's housing crisis, says Wightman, 2018

²³ National Records of Scotland, 2016, Population Projections

²⁴ National Records of Scotland, 2016, Household Projections

²⁵ Frontline 2017, based on Scottish Assessors Association 2016

²⁶ Housing and Well-being Commission, 2015, A blueprint for Scotland's Future

According to NRS projections, Edinburgh is expected to see its population increase by 15% between 2016 and 2041. This is a result of a 5% increase in natural growth and a 10% rise in net-migration.

The effect of net-migration is widespread in Scotland; only the Shetland and Inverclyde local authorities are expected to experience a small decrease (1%) over the period 2016 to 2041. Additionally, **net-migration is expected to increase Scotland's population by 7% over the same timeframe. It is these factors which are driving the 260,500 growth in households over Scotland.** This will continue to put pressure on the housing market, with prices continuing to rise year on year.

Ultimately, building too few homes remains the core cause of the country's housing crisis. As recorded in the IPPR report on Homesharing and London's Housing Market ²⁷, the prime concern and focus of politicians, policymakers and the public should be the longstanding drivers of the crisis: the undersupply of land, the complexity of the planning process, lack of investment and capacity challenges in construction.

Andy Wightman MSP, Housing spokesperson for the Scottish Greens, recognises the need for a rethink of government policies to tackle Scotland's housing crisis. **The latest Quarterly Housing Statistics for Scotland show the number of social housing completions have fallen by 16% from the same quarter in 2016, private new build starts have risen by 6%, while local authority new starts have decreased by 29%. These declines are what is impacting housing availability not STR.**

On 13th May, Andy Wightman said:

*"We are far from addressing the housing crisis, especially with the total number of affordable housing supply completions down 8% on the previous year. Undoubtedly our housing system is based on an ineffective model that does not address housing need in areas where there is a chronic shortage of homes. The current drive towards private home ownership led by the volume house building industry and assisted by the Scottish Government's Help to Buy scheme only benefits the shareholders of these companies and does very little to facilitate genuinely affordable accommodation for individuals and families throughout Scotland."*²⁸

The Scottish Government and local authorities' approach to meeting the expected household growth has been to allocate housing targets in Local Development Plans (LDPs) and the City-region Strategic Development Plans (SDPs). The scale of demand and housing targets confirm the need to deliver new homes in order to meet growth estimates.

²⁷ IPPR, 2017, Homesharing and London's Housing Market

²⁸ Greens.scot: Statistics show need for rethink of government policies to tackle Scotland's housing crisis, says Wightman, 2018

Governed by the National Planning Framework, which seeks to boost the supply of housing across Scotland, LDPs and SDPs contain statutory requirements for new housing and identify locations and sites on which to develop housing to meet the official population and household projections. For example, SESPlan (the SDP area for Edinburgh City-region) has a housing supply target of 63,852 new homes over the period 2018 to 2030.

Although a naturally increasing population and an increase in net-migration can be viewed as a positive economic indicator, there are inherent challenges for housing supply, particularly in terms of affordable housing.

Focusing on Edinburgh, NRS migration data shows that over a five-year period, **more people moved into Scotland's capital, from throughout the UK and overseas, than emigrated from the city.** A total of 149,933 people have moved into Edinburgh since 2011, compared with 125,753 who moved out over the same period, leading to a considerable net-migration gain. **This supply and demand imbalance has been a significant contributor to Edinburgh's average house price increase of 10% in December 2017 compared with December 2016, reaching a record high of nearly £285,000.**

Research by Savills²⁹ found that the **total value of all housing in Edinburgh increased by £7.5bn between 2016 and 2017, from £61.4bn to £68.9bn. This was more than any other UK Local Authority district on a total value growth basis.** The research also found an emerging trend, whereby demand is moving beyond the city boundaries, with an increasing number of residents moving out of the Scottish capital and into surrounding areas.

This position is clearly an issue of a lack of affordable housing stock.

The Strategic Development Plan (SES Plan) aims to ensure the City Region (including Edinburgh City and surrounding locations), is *'underpinned by its high quality built and natural environment and continues to be internationally recognised as an outstanding area in which to live, work and do business'*³⁰.

While this plan recognises that delivering housing will be vital to ensure the future prosperity of the area, annual completions in Edinburgh (across both the private and public sectors), only reached 2,311 during the year ending September 2017. **This is half the amount needed if it is to meet the SES Plan's target of 22,300 homes for Edinburgh City by 2019; this lack of build is a key driver of the housing shortages in Edinburgh.**

This situation is not unique to Edinburgh, cities such as Amsterdam, London and Hamburg have established clear legal frameworks that recognise the benefits of occasional use of residential property as tourism accommodation, but which also recognise the need to avoid negatively impacting local residents. This is discussed further in Section 6.

²⁹ Savills, 2018, 'Edinburgh sees highest price growth of any UK city'

³⁰ <http://www.savills.com/blog/article/240763/residential-property/edinburghs-net-migration-bonus--a-challenge-or-an-opportunity.aspx>

3.3 In summary

Scotland's population is currently at its highest level; the population expanded by 4.6% between 2001 and 2011 and is forecast to grow by another 5.3% by 2041. Household numbers are expected to increase by 9% or 260,500 households by 2039. This will present significant challenges in meeting supply targets.

Every area in Scotland, except two, are forecast to witness net-migration over the period to 2041, this is driving the need for housing and local authorities have agreed targets to meet these demand pressures.

At 79,000 empty homes³¹ set against 16,692 self-catering units in Scotland, essentially, there are almost five times as many empty homes in Scotland as there are self-catering units, suggesting more should be done around occupying vacant homes than suggesting self-catering units are adversely affecting local housing markets. Building too few homes remains the core cause of the country's housing crisis.

However, it is known that the **effects of STR can have an added effect during peak summer periods.** Airbnb proposed a policy solution for central Edinburgh to the Scottish Government's Expert Advisory Panel on the Collaborative Economy, where STR hosts are restricted to renting out their properties for three months outside peak festival times. This ensures the city can provide a home for those looking to live in it while accommodating the STR population. The IPPR report also confirms the economic importance of homesharing whilst calling for measures to monitor and regulate it during peak summer periods.

It is clear from the evidence that the difficulties being faced by the housing market are related to the population and household growth being witnessed across Scotland and not STR and the CE. Although SDPs and LDPs establish housing targets, in many cases these are not being met and this is resulting in housing short-falls and increased house values – in terms of affordable housing. **Although STR may affect areas which are already facing this situation, the scale of STR and CE properties is small in comparison to the wider issues affecting the housing market, including the level of empty homes across Scotland.**

³¹ <https://blog.nrscotland.gov.uk/2017/06/14/estimating-the-number-of-homes-in-scotland/>

4 Antisocial Behaviour Concerns

During a Scottish Parliamentary debate, Scottish Green MSP Andy Wightman voiced concerns over the increase in antisocial behaviour complaints associated with holiday lets in Edinburgh, which have allegedly involved local community safety teams and, on occasion, Police Scotland.³²

To determine if this was true, Frontline reviewed the prevalence of antisocial behaviour complaints related to STR through Freedom of Information (FOI) requests in local authorities across key tourism destination in Scotland:

- Edinburgh and the Lothians (Edinburgh City, West, East and Mid Lothian)
- Glasgow (Glasgow City)
- Fife (St Andrews)
- Loch Lomond and the Trossachs (Loch Lomond)
- Perth and Kinross (Highland Perthshire)
- Aberdeenshire (Deeside)

Evidence was also gathered from the following sources:

- an STR operator survey
- stakeholder consultations

A sample of MSPs were contacted, each of whom are aligned to the tourism destinations, to understand the level of complaints they received around STR. Their responses were inconclusive, with the majority citing an inability to share incident numbers due to data protection.

4.1 Antisocial behaviour incidence in context

In Scotland, there were 16,692 self-catering units recorded on the Scottish Assessors' Association (SAA) rates role in 2016³³ and occupancy levels remained constant at 48% between 2015 and 2016. However, occupancy levels from January-March 2016 to January-March 2017 increased by 1.9%.³⁴ Those situated in cities and large towns experienced the highest levels of occupancy in 2016.³⁵

According to the VisitScotland Key Facts on Tourism 2016 Report, hotels, motels and guest houses were the most used sources of accommodation by domestic visitors (5.2m), followed by staying with relatives (2.2m), and self-catering accommodation (1.3m).³⁶

4.1.1 Edinburgh and Lothians

Specific to the researched destinations, there were 2,045 self-catering units in Edinburgh and the Lothians.³⁷ The area experienced an 11% decline in self-catering occupancy between December 2016 and 2017, from 66% to 55%.³⁸ **According to Edinburgh City Council, there were a total of 39 complaints reported between 2015 and 2018:**

- 10 in 2015/16

³² Edinburgh News: Andy Wightman: Short-term holiday lets need better regulation. Available at: <https://www.edinburghnews.scotsman.com/news/opinion/andy-wightman-short-term-holiday-lets-need-better-regulation-1-4336964>

³³ Frontline 2017, based on Scottish Assessors' Association 2016

³⁴ VisitScotland Scottish Accommodation Occupancy Survey January to March Quarterly Report, p9. Available at: http://www.visitscotland.org/pdf/SAOS_Q12017_Report_September.pdf

³⁵ Scottish Accommodation Occupancy Survey Annual Report, 2016

³⁶ Insight Department: Scotland; The key facts on tourism in 2016. Available at: www.visitscotland.org/pdf/Tourism_in_Scotland_2016.pdf

³⁷ Frontline 2017, based on Scottish Assessors' Association 2016

³⁸ Scottish accommodation barometer report: December 2017/2016 report – self-catering. Available at: <http://www.visitscotland.org/pdf/VS-Scottish-Accommodation-Report-Selfcatering-Dec2017.pdf>

- 13 in 2016/17
- 16 in 2017/18

There were **3 complaints cited by East Lothian Council and 'few' complaints were received by West Lothian Council**, yet the overall number of antisocial behaviour complaints received in this local authority between 2015 and 2017 was over 9,700. Mid Lothian Council did not provide information on this. **Based on this information, over the last three years, while there has been a slight increase in STR complaints in Edinburgh City, overall the number of complaints was negligible in comparison with the number of self-catering units and bed nights available.**

4.1.2 Greater Glasgow and Clyde Valley

In Greater Glasgow and Clyde Valley, there were 394 self-catering units in 2017. The unit occupancy levels declined from 58% in 2016 to 38% in 2017.³⁹ **Glasgow City Council received 14 complaints between 2007 and 2018:**

- 3 in 2007 to 2009
- 3 in 2011
- 1 in 2013
- 6 in 2016 and 2017
- 1 to date in 2018

4.1.3 Fife and St Andrews

There were 2,356 self-catering units in the Fife area in 2016. The area saw a 41% increase in self-catering occupancy levels from 2016 to 2017; from 17% to 57%. **Fife Council received no complaints concerning STR.**

4.1.4 Loch Lomond and the Trossachs

The Loch Lomond, Trossachs, Stirling & Forth Valley area had 746 self-catering units in 2016. The area also experienced a self-catering occupancy increase of 38%, from 20% in 2016 to 57% in 2017.⁴⁰ **Loch Lomond and the Trossachs local authority did not receive any complaints associated with STR** but did receive 28 antisocial complaints between 2015 and 2018. As Loch Lomond is part of numerous local authorities, other local authorities were contacted; **several did not respond to the information request and others cited no complaints related to STR.**

Argyll and Bute local authority provided figures for the overall number of antisocial behaviour complaints received; none related to STR:

- 14 in 2015/16
- 13 in 2017
- 1 in 2018

4.1.5 Perth and Kinross

The Perthshire area had 1,568 self-catering units in 2016. Again, occupancy levels in Perthshire increased by 33%, from 13% in 2016 to 46% in 2017. **Perth and Kinross Council did not receive any complaints related to STR.**

³⁹ Figures based on previous VisitScotland area 'Greater Glasgow'

⁴⁰ Figures based on previous VisitScotland area 'Argyle, Loch Lomond and Forth Valley'

4.1.6 Aberdeen City and Shire

The number of self-catering units in Aberdeen City and Aberdeenshire in 2016 was 260. The area experienced only a 5% increase in self-catering occupancy levels. The number of units increased from 34% in 2016 to 38% in 2017.⁴¹ **The Aberdeenshire local authority council would not provide complaints information due to the cost involved.**

The evidence found that there were very few complaints in comparison with occupancy rates and numbers of available self-catering units, as such we conclude complaints related to STR are negligible. A similar conclusion was drawn from Airbnb who stated that antisocial behaviour complaints were only 0.007% across all of their properties⁴².

4.2 Feedback from operator survey and stakeholders

As part of the operator survey, participants were asked where they had experienced challenges, including those around antisocial behaviour. The vast majority of respondents (over 90% of 268) had experienced no challenges associated with their STR. Of those who did, **only five said complaints were an issue.**

Of the 83 operators based in Edinburgh, only one cited antisocial behaviour as an issue, and one other operator with properties in Inverness reported cases of this but equally had guests complaining of the noise from nearby pubs.

One Glasgow operator said:

"Over the past 3 years we have had a handful of guests that have caused a nuisance to our neighbours and in one case we had to get the police involved. In ALL of these cases the guests were locals. So, I do not believe that we are a nuisance or cause any problems with antisocial behaviour that is not already here."

Overall, operators highlighted the positive benefits of STR for the local economy:

"...Residents in the communal stair have welcomed the short-term nature of the property and appreciate it is being well maintained, looked after and there have been no issues with guests."

"I want to keep the building and communal areas in a good state of repair, attractive and safe. I also want to make sure there are no problems affecting residents from my guests."

"Visitors in our property stimulate the local economy much more than if it were residential. The local economy depends on visitors. Without tourism, remote areas would fail and the maintenance of their infrastructure untenable."

"I personally feel we are getting a very bad rap from certain political angles for no apparent reason. Times are changing, travel is changing, and guests want the alternative accommodation options that we provide."

A small sample of stakeholders considered antisocial behaviour as a challenge in the STR sector, highlighting, however, that their views were based on current press rather than personal experience. One stakeholder mentioned the need for

⁴¹ Figures based on previous VisitScotland area 'Aberdeen and Grampian'

⁴² Airbnb: Introduction to Airbnb in Scotland, p1

area specific action, for example, to avoid applying unnecessary regulation in areas that do not experience high incidence of antisocial behaviour. Another referred to residential impacts as being a challenge. **Overall the stakeholders interviewed did not view antisocial behaviour aligned to STR as an issue. The evidence gathered concludes that antisocial behaviour in relation to STR is negligible and that operators and stakeholders do not deem antisocial behaviour to be a major concern.**

4.3 Evidence from Airbnb and City of Edinburgh Council

A 2012 report by Edinburgh City Council evidenced the small scale of antisocial behaviour issues in Edinburgh. The Scottish Government consulted with agencies at both a local and national level on the issue of antisocial behaviour to explore whether current powers were sufficient to address public concern around STR. It was agreed that, although this affected some individuals, this was a 'small scale' problem. **For example, Edinburgh City Council advised that out of 11,000 noise complaints from May 2008 until April 2009, 41 complaints may have related to 'party flats' and of these, 22 were associated with just one property.** Data provided from 2011/12 suggested that out of over 2,000 holiday flats/apartments in Edinburgh, only 20 were a cause for complaint. Additionally, Lothian Borders Police received 40 calls regarding this problem in the same period and said that relative to other complaints, this number was low. It also states that there are procedures in place to effectively deal with issues when they arise. For example, **a recommendation for the formation of a STR taskforce to monitor progression in the sector, ensure enforcement and develop policies and practice.**⁴³ Additionally, the council has information on its website for those who wish to report a problem about a STR or party flat.⁴⁴

While levels of complaints are low, local authorities, ASSC and CE providers have the procedures in place and the willingness to manage and resolve issues as they arise.

⁴³ The City of Edinburgh Council: Short-term Private Lets review findings, p9

⁴⁴ www.edinburgh.gov.uk/info/20058/private_housing/1210/report_a_problem_with_a_short_term_let_or_party_flat/1

4.4 In summary

The frequency of antisocial behaviour complaints in each key destination local authority is negligible compared to the number of available properties and occupancy levels. Therefore, the evidence concludes that antisocial behaviour is not a problem which is exacerbated by the presence of STR. This is corroborated by Airbnb in their global statistics.

The discussion with stakeholders highlighted no obvious concerns surrounding antisocial behaviour. The operator survey responses showed that a large majority saw no challenges with their STR, **with only two operators from 268 citing antisocial behaviour as a problem.**

It is important to highlight that responsible operators, associations and platforms adhere to a range of codes of conduct.

The ASSC has established a Code of Conduct which operators and agents must follow. This includes rules surrounding maintaining residential amenity, some of which include:

- transparency regarding rubbish and recycling
- ensuring guest limits are not exceeded
- provision of authority contact details should they wish to make a complaint
- encouraging the consideration of other residents when arriving to the property late and refraining from noise⁴⁵

To counter any escalation of inappropriate behaviour, Airbnb proposed a “three strikes” policy in 2016 barring the use of their platform if hosts are cited by law enforcement for violating home sharing rules or other restrictions that are intended to preserve neighbours’ quality of life. Under this policy, hosts who repeatedly receive complaints from local authorities will be either suspended or banned from using Airbnb. **Airbnb and other platforms also offer advice and best practice of responsible hosting⁴⁶, which act as a Code of Conduct for hosts.**

⁴⁵ ASSC Code of Conduct for short-term rental operators and/or their agents: <https://www.assc.co.uk/about-us/code-of-conduct/>

⁴⁶ <https://www.airbnb.co.uk/help/article/1379/responsible-hosting-in-the-united-kingdom>

5 Claims of Tax Avoidance and Evasion

5.1 Introduction

There have been claims that the growth in self-catering and STR is resulting in more cases of tax avoidance and/or evasion; where avoidance is the legal exploitation of the tax system and evasion is the non-payment or underpayment of tax.

According to Andy Wightman MSP's briefing paper on taxation:

"A total of around £10.6m in local property taxes are being avoided because of the Small Business Bonus Scheme and a failure to declare properties being run as a commercial business."⁴⁷

This is related to the view that there is a lack of knowledge around tax rules, or an undercurrent of inappropriate financial recording, resulting in unlawful tax practices amongst operators. This section presents the current tax procedures and reviews the current status of tax investigations relevant to the STR sector.

5.2 Understanding the rules

Tax is a complex topic and an area which is regularly under view, and subject to change at both the UK and Scottish Government levels.

As with all sectors of the UK economy, money earned from self-catering is defined as income, and will therefore be subject to tax. Depending on the amount earned from STR, it may need to be declared to HM Revenue and Customs (HMRC). The current tax thresholds are shown in Table 5.1.

Table 5.1: Tax Thresholds 2018/19 (Scotland)

Tax rates and thresholds	2018/2019
Personal allowance	£11,850 pa
Starter rate	19% of earnings to £2,000
Basic rate	20% on annual earnings from £2001 - £12,150
Intermediate rate	21% on annual earnings from £12,151 - £31,580
Higher rate	41% on annual earnings from £31,580 - £150,000
Top rate	46% on annual earnings above £150,000

As a company, businesses are required to pay 19% corporation tax on all profits. There are no tax-free allowances, however there are a series of allowances and reliefs for businesses such as, capital allowances (related to equipment, machinery and vehicles that are used for business purposes), and reliefs related to research and development.

There are several possible tax reliefs and allowances specific to STR. This includes the 'Rent-a-Room' relief⁴⁸ which was established in 2015, allowing hosts to earn up to £7,500 tax-free from sharing space in their only or main home (the threshold is halved if you share the income with your partner or someone else). This measure came into force in April 2016.

It is worth noting that Airbnb data has shown that the average annual income for hosts in 2017 was £3,600, which is under both the 'Rent a Room' relief figure as well as the personal tax-free allowance figure. There will of course be individuals/businesses that have income above these

⁴⁷ Ciaran McDonald and Andy Wightman MSP: Short Term Lets – Taxation, August 2017

⁴⁸ <https://www.gov.uk/rent-a-room-in-your-home/the-rent-a-room-scheme>

thresholds, and these individual/businesses will therefore be eligible to pay tax at the required rate.

In terms of property taxes, in Scotland properties are liable for Council Tax, according to the agreed valuation of each property across Scotland's 32 local authorities. Business properties are required to pay Non-Domestic Rates (NDR). *Available for let* for under 140 days means the property is in the Council Tax system; *available for let* for over 140 days places the property in business rates. **A property let for under 140 days can be deemed as a domestic property and be valued for Council Tax purposes.**

- Local Authorities retain all Council Tax income
- larger Local Authorities e.g. Edinburgh City Council (ECC) get more income from NDR, but don't retain it
- NDR is spread round other Local Authorities that get less income from NDR e.g. Argyll and Bute
- Scottish Government (SG) has access to all Rateable Values in Scotland and knows which properties get SBBS relief. They also know what NDR income each council receives. Taking this into account, SG calculates the grant that each council will be awarded

Andy Wightman MSP suggests that all STRs are not on the NDR role⁴⁹. However, it is important to consider that if they all were, then they may be eligible for the Small Business Bonus Scheme (SBBS), resulting in the council losing out on Council Tax income.

However, it is recognised that if Council Tax income has dropped and properties receiving SBBS relief has increased, the grant achieved by a local authority would be adjusted accordingly because of the net loss in income from Council Tax.

It is clear that individual councils are not disadvantaged by having fewer Large Business Supplement (LBS) properties relative to SBBS properties. Councils receive guaranteed levels of funding (based on need) under the local government finance settlement and retain the NDR income in their areas as part of this.

It is worth noting that Airbnb data shows that the average number of days a host lets their property in Scotland is 40 nights, well below the threshold for paying NDR.

In Scotland, 2017 saw a rates revaluation and the draft proposals placed a significant burden on the self-catering industry, with an average across Scotland increase of 65%, but some ASSC members reporting up to 269% increases.

The Barclay Review Group was established to make recommendations that seek to enhance and reform the business rates system in Scotland to better support business growth and long-term investment and reflect changing marketplaces. Recommendations to Government have been delivered, and an on-going review of the SBBS is underway.

The Barclay Review Group provided 30 individual recommendations, with some requiring primary legislation by the Scottish Parliament, on how the business rates system could be reformed in Scotland⁵⁰. Recommendation 22 was to counter a known avoidance tactic for second homes; owners or occupiers of self-catering properties must prove an intention let for 140 days in the year and evidence of actual letting for 70 days. The ASSC welcomes this recommendation.⁵¹

In relation to the possibility of using this sector for tax avoidance or evasion purposes, there is no evidence of tax avoidance in the sector.

⁴⁹ Ciaran McDonald and Andy Wightman MSP: Short Term Lets – Taxation, August 2017

⁵⁰ Scottish Government, Report of the Barclay Review of Non-Domestic Rates (2017)

⁵¹ Ibid

It should be noted that HMRC takes very few tax avoidance cases to court – only 26 from throughout the UK as a whole during 2016/17⁵². It would therefore be reasonable to assume that the likelihood of a STR case been escalated to this is very low.

5.3 In summary

The rules and rates of taxation are well defined and clearly presented by national and local governments, for both individuals and businesses as well as domestic and non-domestic properties. These have been refined for the self-catering sector to help the industry and to support tourism targets.

- Airbnb data has shown that the average annual income for hosts in 2017 was £3,600, which is under both the 'Rent a Room' relief figure as well as the personal tax-free allowance figure
- Airbnb data highlights that the average number of days a host lets their property in Scotland is 40 nights, well below the threshold for paying NDR
- individual councils are not disadvantaged by having fewer Large Business Supplement (LBS) properties relative to SBBS properties. Councils receive guaranteed levels of funding (based on need) under the local government finance settlement and retain the NDR income in their areas as part of this

From the operator survey we know that all respondents pay some form of tax and the majority pay business rates (81%), and the remainder paying Council Tax or both. It is reasonable to assume that there is a very low possibility of tax avoidance and/or evasion being an issue for the traditional STR sector.

⁵² Tax avoidance litigation decisions - 2016 to 2017, August 17, <https://www.gov.uk/government/publications/tax-avoidance-litigation-decisions/tax-avoidance-litigation-decisions-2016-to-2017>

6 What are Others Doing to Support CE Development and Minimise Impact

6.1 Introduction

In order to understand issues from elsewhere, this section summarises what other areas across Europe are doing to support its development and minimise any potential negative impact of the CE. This draws on third party research and is split according to findings from other cities and countries.

6.2 City level

The emergence of CE platforms and short-term/holiday lets have occurred across Europe and elsewhere. Some specifics about each city are described below.

6.2.1 Barcelona

In Barcelona, Airbnb was fined €30,000 for violating tourism laws.⁵³ Additionally, the city has deployed 'illegal apartment squads', in a bid to combat unlicensed apartments. This resulted in a fine of €600,000 against Airbnb for advertising unlicensed flats.⁵⁴ Since then Airbnb introduced a limit in the city's most built-up area, Ciutat Vella; this ensures that only professional operators who share their business details on the platforms can list more than one whole property listing.⁵⁵

A report published by Francisco Serrano Del Ray which explores the **effect of STR on long-term rental prices in Barcelona found that there were other factors responsible for high rental prices.** Francisco refers to a Catalanian Holiday Rentals Association study and Spanish Federal Association of Holiday Rentals report which claims Barcelona saw a 9.14% rise in average price per square metre for rent in 2015, and a further 10.12% increase in 2016.⁵⁶

It suggests that the increase in rental prices is in fact due to a rise in the number of residents with higher education levels; the decrease in unemployment; and the increase in income within specific sectors. The report also stated that Barcelona has increased its housing market from 105,152 in 2015 to 106,885 in 2016. This coincided with a decrease in holiday rental supply from 2015 to 2016, resulting in a 1076 increase in homes returning to the long-term market.⁵⁷

The report highlighted that STRs only accounted for 1.64% (13,555) of housing stock, and that there has not been a decline in the number of long term rentals on the market as a result of STRs since 2015. It also referred to the fact housing rental price increases are widespread across Barcelona, including areas where holiday rentals are not present. **In conclusion holiday rentals cannot be proven to be responsible for this general rental price increase in Barcelona.**

Further evidence that STRs are not having the suggested negative effect reported is presented in the Nutsch and Associates study, *Impact of the Short-term Rental Industry in Europe*. It found that only 3% of registered complaints surrounding antisocial behaviour in Barcelona was attributed to STR, and that the **rental market is driven by consumer movement towards renting rather than**

⁵³ Airbnb's legal troubles. Available at: <https://www.theguardian.com/travel/2014/jul/08/Airbnb-legal-troubles-what-are-the-issues>

⁵⁴ Barcelona cracks down on Airbnb rentals with illegal apartment squads. Available at:

<https://www.theguardian.com/technology/2017/jun/02/Airbnb-faces-crackdown-on-illegal-apartment-rentals-in-barcelona>

⁵⁵ Airbnb Position Paper: The Collaborative Economy and Tourism in Scotland, p9

⁵⁶ Do short-term holiday rentals affect long-term rental prices? Available at: <https://www.spain-holiday.com/rentalbuzz/do-short-term-holiday-rentals-affect-long-term-rental-prices>

⁵⁷ Ibid

owning property, along with a shortage of affordable and new development housing.⁵⁸

Evidence is also scarce to confirm that STRs are having an impact on the hotel industry in the city; occupancy rates, revenue per available room and average prices have increased since the recession in 2008.⁵⁹ **Most importantly, the short-term vacation industry has generated almost €2.5bn for the Barcelona economy which reflects a similar increase of over €3.5bn for the Parisian economy.**

6.2.2 Paris

The Nutsch study also gives evidence on STR in Paris, where growth is said to be the result of an increase in one-person households, a shortage in social housing levels at 4%, despite French law requiring more than 20%, and in Greater Paris, only 50% of the volume of housing required to meet demand is being built. Similar to Barcelona, **the reduction in housing stock is said to be a product of multi-home and second home ownership not STR.**

6.2.3 Berlin

In Berlin, there has been further action taken to lessen the growth and effects of STR. **City authorities had placed a ban on the rental of whole properties in the German capital for those who do not hold a permit.⁶⁰** The operators risked a fine of up to €100,000 and this was enforced as a way of protecting the already insufficient levels of housing stock in the city.⁶¹ Others who rent properties on a smaller scale believe those who take advantage of the system should be stopped. The city authorities of Berlin seem to view Airbnb as partly responsible for increasing rents. **However, from May 1 2018, owner-occupiers will, under certain conditions, be allowed once more to rent out their own homes as much as they want, and to rent out second homes for up to 90 days a year.** For a city that's become well-known for its extremely tough laws governing vacation rentals, the new ruling seems like a major compromise⁶².

6.2.4 Madrid

Madrid is among other cities taking action to reduce the effects of STR. **It originally set a maximum stay of five nights in private homes and apartments. This directive was, however, later overturned in the courts.⁶³**

6.2.5 Amsterdam

Evidence suggests that Amsterdam is more receptive to the idea of STR. In 2014, the city passed a law which allows peer-to-peer rental of residential property and has given STR a category of their own; private rental. This demonstrates the city's positive attitude towards CE platforms.⁶⁴ As articulated in Airbnb's submission to the expert panel report, the city has a 60 night per annum limit on the letting of entire homes, after which a short stay licence or a B&B permit is required⁶⁵. **In**

⁵⁸ Nutsch and Associates study: Impact of the short-term rental industry in Europe

⁵⁹ Ibid, p16

⁶⁰ Berlin bans thousands of Airbnb properties. Available at:

<https://www.telegraph.co.uk/travel/destinations/europe/germany/berlin/articles/airbnb-listings-plummet-in-berlin-as-ban-comes-into-force/>

⁶¹ When Airbnb rentals turn into nuisance neighbours. Available at:

<https://www.theguardian.com/technology/2016/sep/17/airbnb-nuisance-neighbours-tribunal-ruling>

⁶² Berlin Just Cancelled its Airbnb ban, 2018, <https://www.citylab.com/life/2018/03/berlin-airbnb-vacation-rental-regulation-law/556397/>

⁶³ Ibid

⁶⁴ <https://www.cnet.com/news/amsterdam-officially-approves-new-Airbnb-friendly-laws/>

⁶⁵ Airbnb Position Paper: The Collaborative Economy and Tourism in Scotland, p9

January of 2018, the city council further reduced this limit of 60 days to 30 per year.⁶⁶

6.2.6 Reykjavik

The Icelandic capital has enforced a limit of 90 rental days before having to pay business rates.⁶⁷

6.2.7 Hamburg

Those operating rentals in the city of Hamburg will require 'change of use' permission if 50% of the home/apartment is rented out for the whole year, or if the whole property is rented out for half the year.

6.2.8 London

London also has a 'change of use' policy, for properties rented out for more than 90 consecutive days. **However, a report by the IPPR concluded that STRs are having a negligible effect in London, therefore dispelling the idea that the impact of STR is significant in the capital.**⁶⁸ Airbnb has developed a 'Responsible Neighbour Guide' in the city which hosts can populate and give to guests, so that there is an understanding of expected behaviour.⁶⁹

Additionally, Amsterdam, Hamburg, and London have frameworks which acknowledge the use of domestic property for accommodation.⁷⁰ In Amsterdam and London, Airbnb introduced an automated system which limits hosts with entire properties to the number of nights permitted, according to underlying legislation.

There are also routes provided to notify the platform when there are exceptions to the rule; for example, when hosts rent a self-contained space that forms part of their home.⁷¹ Airbnb is clearly working to support the sector and those who may experience unwanted external effects in highly in-demand areas.

6.3 Country level

Some specifics about each country are described below.

6.3.1 Italy

Italy plans to introduce a 'sharing economy act', which gives a definitive description of the sharing economy and sharing platforms. This will require platforms to sign up to a registry and share documents with the competition authority for clearance. Additionally, fairer tax systems will be introduced where those earning less than €3,000 will be exempt from tax, those earning less than €10,000 will pay 10%, and any earnings above this will be based on the hosts marginal tax rate.⁷²

⁶⁶ DutchNews.NI. Available at: <https://www.dutchnews.nl/news/2018/01/amsterdam-slashes-airbnb-rental-period-from-60-to-30-days/>

⁶⁷ Ibid

⁶⁸ IPPR: Available at: <https://www.ippr.org/files/publications/pdf/homesharing-and-london-housing-market-dec16.pdf>

⁶⁹ Airbnb: Introduction to Airbnb in Scotland, p2

⁷⁰ Ibid

⁷¹ Ibid

⁷² PwC: Assessing the size and presence of the collaborative economy in Europe April 2016, p14

6.3.2 Poland

The Ministry of Development in Poland opposes any regulation which jeopardises the development of the CE.⁷³ Furthermore, a journal article which explored the legal position of Airbnb services from a Polish viewpoint concluded that Airbnb and other collaborative platforms are not, as yet, thought to be in real competition with, or a threat to traditional tourism offerings⁷⁴.

6.3.3 The Netherlands

The government in The Netherlands is actively prioritising support for growth in the CE. According to Airbnb, the total economic activity generated by guest spending and host income in the country reached €795m in 2016, while 38% of the average Airbnb guest's expenditure went towards local businesses in the neighbourhood in which they stayed⁷⁵.

6.3.4 Denmark

The Danish government announced the introduction of 'new and innovative' rules for home sharing in May 2018⁷⁶. **The rules will allow the Danish population to freely share their homes with guests and make income tax simpler to navigate.** The government aims to increase the threshold for tax-free earnings for primary homes to 28,000 DKK and for holiday homes to 40,000 DKK for those hosting through platforms that collaborate with the government to encourage accurate payment of tax. Those who do not host with these CE platforms will have only 11,000 DKK threshold. It proposes new powers for local authorities to decide on the number of nights hosts can share their entire property. Again, those hosting through platforms collaborating with the government can share their home for at least 70 nights a year, whereas those who do not can only share their homes for 30 nights a year. The data sharing between the government and CE platforms will be subject to stringent European and national rules and will only be used to support accurate payment of tax

6.3.5 Ireland

Ireland appears to be in a similar situation to Scotland in that, despite anxiety around the issue, no concrete evidence is available to prove STRs are having an impact on housing prices and stock. Like Scotland and the rest of the UK, Ireland suffers from a housing supply issue and there is concern that STR will further aggravate the problem. A report by Houses of Oireachtas Joint Committee, which acknowledges the potential issue of STR in Ireland, produced a set of recommendations to deal with the issue. These include:

- regulations for entire properties and those renting for more than 90 days per year
- a licensing system where platforms would be required to register hosts and share information with the local authority
- exemption of change-of-use planning permission for lets of less than 90 days
- requirements for landlords to provide a reason for ending a tenancy
- a review of current planning laws

⁷³ Ibid, p15

⁷⁴ Novelty Journals, International Journal of Novel Research in Humanity and Social Sciences: The Legal Status of the Airbnb Services from the Polish Perspective, p68

⁷⁵ The Airbnb Community: The Netherlands Available at: <https://www.airbnbcitizen.com/wp-content/uploads/sites/50/2017/02/The-Airbnb-Community-The-Netherlands.pdf>

⁷⁶ Airbnb citizen: Denmark Embraces Home sharing, 2018. Available at: <https://www.airbnbcitizen.com/denmark-embraces-home-sharing/>

- that the memorandum of understanding between Airbnb and the department be ceased and redrawn to allow for a fit-for-purpose version⁷⁷

Many of the proposed actions mirror those of other European cities, for example, the need for planning permission for lets lasting more than 90 days. Despite the cited requirement for new rules surrounding regulation and other issues, the growth in STR has allowed for positive social and economic benefits in Ireland.

According to the Airbnb Ireland Insight Report, a total of €506m was generated as a result of the sharing economy, and €115m of income was earned by hosts.⁷⁸ Hosts earned an annual average of €3,500, with listings being booked for 37 nights of the year.⁷⁹

6.4 In summary

Some European cities view STR as problematic and have prescribed various actions to control growth; for example, Barcelona's fining of Airbnb for disobeying tourism laws, and Berlin's ban on the rental of entire properties without a permit.

However, **two reports, one based on Barcelona alone and the other on both Barcelona and Paris, suggest that STRs are not responsible for the shortage of housing stock, increase in rental prices and increases in antisocial behaviour.** This is rather due to governments' failure to build adequate numbers of housing, an increase in employment levels and those with higher education and increasing income levels.

The effect of the growth in STR has not been shown to impact hotel growth in Barcelona, as occupancy rates and average prices have increased since the economic downturn. **The evidence suggests that the economic benefits provided by the STR and CE sectors are significant.**

From a country-wide perspective, there are systems in place to support the growth in the STR sector. Examples include Italy's and Denmark's plans to introduce a fairer tax system and proposed collaboration with Airbnb and CE platforms on information sharing, and Poland's opposition to any regulation which aims to prevent the growth of such lets. Support was expressed for CEs by authorities in the Netherlands and a report by Airbnb also outlines the economic additionality provided. This demonstrates that countries are aware of the benefits afforded by STR.

Although Ireland's government has expressed concern about the potential negative effects of STR, it acknowledges that there is a need for further evidence to discover whether the effects are indeed negative and/or large in magnitude. What is evident, based on the Airbnb Ireland report, is that the sector makes a substantial contribution to the economy, including in lesser known areas of the country.

Overall, it is clear that countries and cities are working with the STR sector and CE platforms to keep up with the ever-growing level of tourism across the globe. As more and more people travel and as technology continually advances, policy-makers, STR operators and CE platforms must continue to work together, share knowledge and adapt when any significant detrimental effects on the social, economic or environmental fabric of an area. Information exchange across all parties is crucial and this study confirms this is occurring and will

⁷⁷ Houses of Oireachtas, Joint Committee on Housing, Planning & Local Government: The Impact of Short-term Rental on Ireland's Housing and Rental Market, 2017. P14

⁷⁸ Ireland Insights Report: A look at regional home share trends across Ireland, p3

⁷⁹ Ibid, p4

continue to occur to ensure the sustainable growth of the tourism economy in Scotland.

7 Conclusions

This report provides an evidence base to dispel the negative myths surrounding STR and demonstrates how the STR sector is benefitting Scotland.

7.1 The tourism sector and the collaborative economy

Tourism is a key sector in Scotland, it continues to provide **increasing numbers of jobs, business turnover and resultant GVA**. The latest indications from VisitBritain and VisitScotland suggest 2017 may have been a record year in terms of both the volume and value of tourism, both amongst domestic travellers and international visitors.

The self-catering or STR sector is an important component of the tourism sector, particularly in Edinburgh, the Highlands and in Perthshire.

As technology advances and consumer booking habits change, there has been a significant shift in the growth of CE platforms as a route to market for self-catering businesses.

Airbnb has emerged as the major CE platform in Scotland. **The evidence provided by them confirms that CE platforms will continue to grow and supported by traditional marketing efforts will assist Scotland to achieve the targets set out in Tourism 2020.**

7.2 The housing market and short-term rentals

The difficulties faced by the housing market are related to the population and household growth being witnessed across Scotland. **Although SDPs and LDPs establish housing targets, in many cases these are not being met and this is resulting in housing short-falls and heightened house values** – notably in terms of affordable housing. Scotland's population is forecast to continue to grow and there is no doubting the pressure being faced by the housing market.

It is building too few homes and not the impact of the STR market that is the cause of the country's housing crisis. The prime concern and focus of politicians, policymakers and the public should be the longstanding drivers of that crisis: the undersupply of land, the complexity of the planning process, lack of investment and capacity challenges in construction.

Overall there are 79,000 empty homes in Scotland compared to 16,692 STR. **Essentially, there are almost five times as many empty homes in Scotland as there are self-catering units, and there should be more attention given to occupying vacant homes than suggesting self-catering units are adversely affecting local housing markets.**

7.3 Antisocial behaviour concerns

Evidence from local authorities, stakeholders and operators demonstrates that the frequency of **antisocial behaviour complaints across Scotland is minimal** and is not a concern.

Further evidence from Airbnb suggests **complaints are also very rare**, and the high level of neighbourhood spending demonstrates that local economies and infrastructure are benefiting considerably from STR.

There is a willingness amongst STR operators and CE platforms to put procedures in place to manage and resolve concerns including the ASSC's Code of Conduct which operators and agents must follow. Airbnb has also developed rules and Codes of Conduct to ensure behaviour is appropriately monitored and action is

taken to minimise any issues. Although not all operators do this, this should be actively encouraged.

In conclusion, there is no evidence to corroborate antisocial behaviour as a problem which is exacerbated by the STR market.

7.4 Tax avoidance and evasion claims

The rules and rates are well defined and clearly presented by national and local governments, for both individuals and businesses as well as domestic and non-domestic properties. These have been refined for the self-catering sector to help the industry and to support tourism targets.

Individual councils are not disadvantaged by having fewer Large Business Supplement (LBS) properties relative to SBBS properties. Councils receive guaranteed levels of funding (based on need) under the local government finance settlement and retain the NDR income on their areas as part of this.

It is difficult to prove any avoidance and/or evasion as there are no publicly available figures on tax avoidance. However, from the operator survey it can be concluded **that all traditional STR respondents are paying some form of tax** and the majority are paying business rates and the remainder paying Council Tax or both.

For those who use platforms such as Airbnb, evidence suggests that for the majority, tax will be paid under existing personal allowances or through agreed Government schemes, given that the average earning is £3,600 with rental periods of less than 40 nights.

7.5 Lessons from other countries and cities

It is clear that some European cities view STR as problematic as there are many examples of actions taken by authorities to control growth. However, evidence shows that **STR is not responsible for the shortage of housing stock, increase in rental prices and increases in antisocial behaviour.** This is rather due to government failure to build adequate numbers of housing, an increase in employment and those with higher education, and increasing income levels.

Additionally, the effect of the growth in STR has not impacted hotel growth in Barcelona for example, as occupancy rates and average prices have increased since the economic downturn; and the economic benefits provided by the sector are significant.

From a country-wide perspective across Europe there are **systems in place to support the growth in the CE and the STR sector**; the Netherlands and Denmark, for example, are prioritising support for the sector. And while Ireland's Government has expressed concern about the potential negative effects, it acknowledges that there is need for further evidence to establish whether the effects are indeed negative and of the order of magnitude that outweighs the significant economic benefits.

Appendix 1

Operator Survey Respondents and Stakeholders

Operator Survey Respondents

2 Cawdor Terrace	Clan Cottages
27 Garenin	Cloag Farm Cottages
3 Oban Times Buildings	Clover Holidays
3 Tarrel Farm Cottages	Colin Campbell Property
45 Westgate	Coopers Knowe House
Abbotsford Hope Scott Wing	Craobh Haven Cottages
Achmony Holidays	Crovie Cottage
Ae Barn	Cruise Loch Lomond
Aikwood Tower	Dalriada Properties Limited
Airhouses	Dalvourn Holidays
Alltshellach Cottages	Damside Self-Catering
An Tigh Earna	Deveron Valley Cottages
Appletree Cottage	Dickins Edinburgh Ltd
Arbigland Farms	Dimpleknowe Holiday Cottages
Ardgour Estate	Drumboy Lodge
Ardmaddy Castle Holiday Cottages	Drumnadrochit Lodges
Ardmiddle Mains Cottages	Dubh Loch Cottage
Ardoch House Cottages	Dublin St Lane South
Ardormie Farm Cottage	Dunalastair Estate Cottages
Ardverikie Estate Ltd	Dunglass Estate
Arniston Estate Partnership	Dunkeld Holidays
Auchmore Apartments	Dunvegan-Inverness
Auchnascrew Mill	Easter Dunfallandy
Aulddairy Holiday Cottage	Eastside Cottages
B & H Barker	Eden Burgh Serviced Accommodation Ltd
Baincraig Lodge	Edinburgh City Apartments
Balblair Self Catering Cottages	Edinburgh SC (Self Catering) Ltd
Balkello Accommodation	Edinburgh Self-Catering
Balneden Steading	Edinburgh VRBO
Banffshire Holiday Cottages	Edinburghnights
Blackford Cottages	Escape to Galloway
Blairmore Farm & Estates Ltd	Evergreen Property Ltd
Bluefolds Highland Holiday Cottages	Far Horizons Holiday Cottages
Border Escapes	Ferryboat Cottage
Borlum Farm	Fingal & Heriot Cottage
Broadmeadows House	Firm of Hillcrest
Brooklinn Mill Holidays	First Apartments Ltd
Broombank Cottage	Flox Cottage, Nethy
Brown's Close Apartment	Fortis Property Lettings LTD
Burnbrae Holidays	Fuchsia Cottage
Burnside, Lochdon, Isle of Mull	Fuchsia Cottage Fortrose Harbour
Calath Lettings	G and J Brown Farms
Candlemaker Row	Gael Holiday Homes
Carole McRae	Galloway Hideaways
Cawdor Estate	Glasgow Green Apartments
Ceithir Raithean	Glen Tanar Estate
City Apartments Edinburgh	Glendrynoch Cottages

Glenprosen Cottages	Lodges at the Mains
Green Pastures Cottage	Lotus Lodge
Greyfriars Bobby Apartment	Mains of Taymouth
Gruinyards	Mall House self catering Accommodation
Guy's Cottage	Mansefield House
Gypsy Palace	Mansley Serviced Apartments
HandyHouses	Marchmont Self Catering
Happy Short Stays	Mary's Thatched Cottages
Haus Saron	McKenzie Cottage
Hayloft Edinburgh	MK & GM Brown
Hayloftedinburgh	Monument Cottage
Hebridean Luxury Hols	Monzie Estate
Hiddenglen Holidays	Moray Cottages
High Kirkland Cottage Holidays	Morenish Mews
Highland Heather Lodges	Mrs L G Luescher
Highlands Ardrhu Holiday Cottages	Newhill Farm Lodgings
Holiday Home Glasgow	Newington Urban Living
Home Farm Lodges Ltd/Ness Castle Lodges Ltd	Noddsdale Estate
Home from Home Aberdeen	Northern Lights Apartments
Hopetoun St Apt - Murphy's Pl	NSC Partnership
Inver Rose self catering	Oban Seil Croft Cottages
inverness apartments & cottages	Old Mission Hall (self-catering cottage)
Islands & Highlands Cottages	Old School Apartments
J & M Turner	OMP One Marine Place
Janet Lumb and Angela Whiles	Ord Family Trust
John Bray Cornish Holidays	Orkneycrofts.com
Joyce Laird	Orroland Holiday Cottages
Justfortwo	Paisley Apartments
Kilbryde Castle Estate	Parkcottageskye
Kilbryde Events	Parkview Apartment/ Garden Cottage
Kingsburgh Boathouse, Skye	Perthshire views
Kinlochlaich Garden Self Catering	PillowStops
Kirkennan Estate Holiday Cottages	Pilrig House Apartments
Ladeside	Pine Chalets
Ladyhill House	Pinesmoke Self Catering Cottage
Laidlaw Lettings	Pitnacree Cottage
Lann Dearg Studios	Plum Braes Barn Holidays
Lawson Lets	Press Mains Farm Cottages
Lazyday Cottages	Pure Serviced Apartments
Leisburn Cottages	Ralph Averbuch
Lerigoligan	Rarity Breaks and Rarity Rentals
Linnhe Croft Holiday Cottages	Reserve Travel Ltd (Reserve Apartments)
Loaninghead holidays	River Edge Lodges
Loch Leven Chalets	Riverside Log Cabins
Loch Lomond Waterfront Luxury Lodges	Rosebank
Loch Monzievaird Chalets	Rosehip Properties
Loch Seil Cottages	Rymore Wood Lodge
Lochside Follies	Sandcastle Holidays (Scotland) Ltd

Sandford Country Cottages
Sandwood Lodge
Scottish Holidays in the Hills
Seabank selfcatering
Sealladh na Mara
Seascape, Pittenweem
Seascience
Self Catering Edinburgh
Silver Lining Apartments
Sky Blue Cottage
Skyehaven
Snowberry Cottages
Solway View Holidays
Sound of Harris
SouthSide Property Management
Steading 5 Newtonmore
Stinchar Cottages
Strathlyon Cottage
Strathspey Holiday Cottage
Taigh An Clachair
Teeny's Cottage
The Bonnie Thistle
The Cottage Bogroy
The Croft House
The Edinburgh Address
The Gardeners Cottages
The Loft @ The Granary
The Old Schoolroom
The Old Stables, Corrimony
The Restalrig Apartment
The Stonehouses
The Turret
The Whitehouse, Moulin
Tigh-na-Mara
Toll Bridge Lodge
Tower Farm Holidays
Treshnish & Haunn Cottages
Tullochwood Lodges
Unapool House Cottages
Upper Croitachonie
Vanora's Cottages
Varis Holiday House
Waterloo Lodge
Waterside Breaks Ltd
West Coast Cottages
Williamstone Farm Steadings
Yorkhill Apartment and Hamilton Lettings
Your Partner in Property

Stakeholders

Marie Lorimer - Airbnb

Jan Metelski - Travel Nest

Riddell Graham - VisitScotland

Marc Crothall - Scottish Tourism Alliance

Willie Macleod – British Hospitality Association

Susan Love and Barry McCulloch - Federation of Small Businesses

Robert Kennedy - SuperControl

Stuart Black and Colin Simpson - Highland Council

Shaheena Davis - Empty Homes Partnership

Gavin Leask - Shelter

Grant Seaton - Cumberland Building Society

Pantazis Pastras - Toposophy

Aileen Lamb - Scottish Enterprise – Tourism

Steven Dott and Anna Miller - Highlands and Islands Enterprise Tourism

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