

Con Berbatis, *Ph.D.*

22 January 2019

The Economics & Industry Standing Committee
The Legislative Assembly of Western Australia
Via email: laeisc@parliament.wa.gov.au

Dear Committee,

Please consider this submission to your *Inquiry into Short Stay Accommodation*.

I note your four points of reference; however, my focus will be on items two, three and four. I will leave others to comment on point one.

2. “The changing market and social dynamics in the short-stay accommodation sector.”

The state of the WA Backpacker industry is best described as being in a profound recession. I believe that Tourism WA holds it as of less strategic importance than it should do. The Committee should consider the following facts as supported by Tourism Research Australia’s International Visitor Survey:

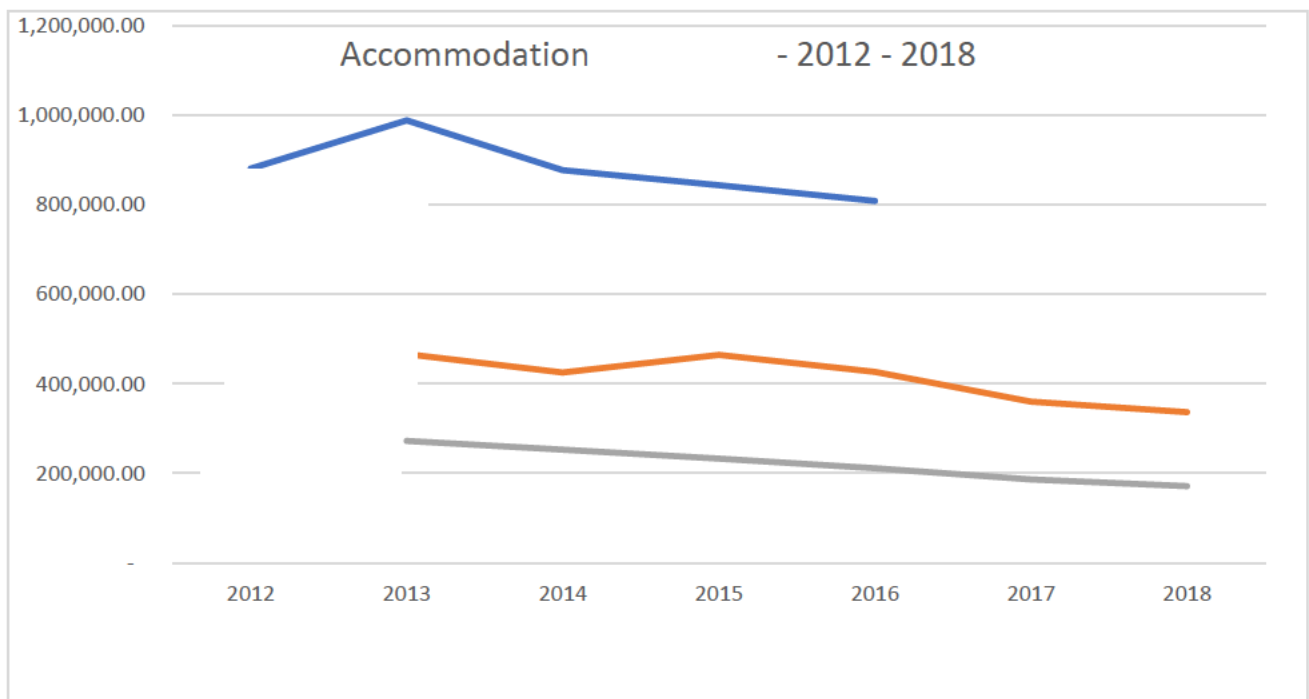
1. Backpackers are the highest spending category of visitors to Australia. They spend an average of \$5,179.00 per trip.
2. Backpackers stay longer than any other visitor category; and visit more destinations (including those in remote and regional areas).
3. Backpackers provide a valuable source of seasonal labour to WA farms.
4. Good experiences as a backpacker encourage them to return later in their lives, with family in tow.

For your reference, below is a graphical representation of the trading performance of my two current backpacking interests:

Table One: Accommodation revenue of three Perth hostels 2012-18

2012	2013	2014	2015	2016	2017	2018
880,442.00	988,015.00	876,980.00	843,209.31	808,060.29		
	466,033.65	424,682.00	464,237.74	426,041.90	360,116.16	336,396.50
	272,135.00	252,481.62	232,870.10	210,943.66	185,865.29	171,160.12

Figure One: Declining trends of accommodation revenue in three Perth hostels 2012-18



The Tourism Research Australia WA data below (table two) restate the headline trend in this sector, which is essentially reflective of my personal experience.

Table Two: Tourism Research Australia's International Visitor Survey (IVS) – 2016 vs. 2017 (WA Backpackers)

	Real Number	% Change YoY
Backpacker Visitors to WA	-17,000	-16.40%
Backpacker Visitor Nights	-913,000	-19.30%

If extrapolated from 16-17 to 17-18 would show the same decline. This bucks the national trend, where there is no notable year-on-year sector change. In general, WA backpacker accommodation operators have seen up to a 40% reduction in Average Daily Rates and occupancy.

Six Reasons why the WA Backpacker Sector is in Recession

1. **Weakening of the WA economy.** As the WA economy has been performing worse than the Eastern States and employment prospects worsened, backpackers have been discouraged from visiting.
2. **Changes to tax regulations.** Whilst there has been some recent relief in this area, it should be noted that the imposition of unfavourable tax laws for Backpackers versus domestic employees has discouraged working holiday makers and directed them to the larger capital cities to the detriment of primary industry employers, which makes them less likely to travel to WA.
3. **Lack of facilities.** The Backpacker sector is very well established on the East Coast with a variety of higher-end operators offering purpose-built accommodation and abundance of tour offerings. The sector in Perth is generally low quality (I would argue my award-winning The Witch's Hat is an exception!). In Perth, backpackers depict a race to the bottom on price. Is there scope for the State Government to incentivise operators to establish purpose-built backpacker facilities?
4. **Airbnb has a competitive advantage** over backpackers as they do not have the same lodging house regulatory requirements as backpackers. I will expand on this point further below.
5. **The flat residential property market** means estate agents offer leases as short as three months for group accommodation, thus exacerbating demand for accommodation in Perth.
6. **The increase in supply of Perth hotel rooms** has meant hotel room prices have dropped to an extent where they have come down to match, or in some cases lower than, that of the traditional backpacker accommodation.

3. “Issues in the short-stay accommodation sector, particularly associated with emerging business models utilising online booking platforms” &

4. “Approaches within Australian and international jurisdictions to ensure the appropriate regulation of short-stay accommodation.”

The rise of Airbnb and related share accommodation disruptors has been much debated in various parliaments and party rooms around the developed world. We have seen various regulatory responses, some, such as in San Diego, firm in their response. I am sure the Committee will field much information on the broader scope of legislative and regulatory approaches to this issue both domestically and in international jurisdictions.

Airbnb does enjoy far less regulatory burdens than the traditional accommodation sector. This is a form of regulatory arbitrage. Through regulation, the government has in effect created property rights in the form of hotel and lodging house licences and then allowed these rights to be eroded, allowing a competitive sector to work around such compliance and regulation. This is clearly topical in WA at present with coverage in *The West* highlighting the damage to Margaret River. This coverage, of course, included the Editorial of 13 August 2018.

Obviously, I believe that the accommodation sector needs a more even regulatory playing field. However, I wonder whether regulators in Australia are looking at shared accommodation disruptors through the wrong prism? Is the best answer the establishment of a more level playing field *through innovative government action to enhance the backpacker industry and the reduction of red tape in the traditional accommodation sector?*

In Europe for example, backpacker accommodations typically generate 35% of their income from food & beverage. This in turn allows them to offer very competitive bed rates while then increasing revenue through meals and alcohol sales. My management tells me that the liquor licensing laws in WA make the introduction of a sustainable and profitable F&B element very difficult.

Specifically, there is currently no stream in the liquor licensing process that allows for a simple license application for accommodation providers to serve alcohol to its check in guests. This amenity would be available to in-house guests of the given accommodation provider. Such a license category would also allow for greater control by hostel management as in many cases patrons consume their own alcohol on site (I

believe this is a grey regulatory area). I believe that recent changes to liquor laws, not yet operational, seek to do something similar with restaurants.

Any such regulatory initiative should:

- Have short processing times;
- Have flexible operating hours in tune with the target demographics preferences;
- Be commercially viable to implement;
- Have practical administration requirements and not be subject to restrictions and conditions that make it a pointless exercise;
- Positively affect the industry with less bureaucracy at the point of applying for a licence and more emphasis on compliance to still address harm and ill-health issues.

Local government has its own role in the red-tape maze. For example, I have been told one hostel, which backed out of applying for a liquor license as they were told such an application would constitute a “change of use” of the premise and therefore require a non-viable amendment to their DA. All because a hostel wishes to sell drinks from a fridge behind reception to guests only in a controlled, licensed environment.

Liquor licensing is a clear and tangible regulatory area of where reform could lead to the flourishing of the backpacker sector, which could then offer a competitive point of difference to Airbnb, whilst being able to compete more freely against this sector on price. It may also allow for the sector to re-establish its competitive footing against low-end hotels and short-term residential leases as above.

The Committee should note that I have flagged this directly with the Minister for Tourism (who is also the Minister for Racing & Gaming).

Credentials

Beyond my backpacker interests, and former partnership in the [redacted] Inn, my experience in this sector extends to former ownership of the [redacted] Hotel in [redacted]; and the [redacted] Resort. I am also presently a partner in the [redacted] Bar & Café.

Witness

Thank you again for considering this submission. I would be delighted to appear as a witness as required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Con Berbatis". The signature is fluid and cursive, with a distinct flourish at the end.

Con Berbatis, *Ph.D.*