

The Local Economic Impact of Short Term Rentals in Galveston, Texas



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Overview

Short term rentals (STR) are an increasingly popular lodging choice for travellers in almost all communities in the United States. With the growth of web portals such as *HomeAway* and others, visitors are better able to select the accommodation style that fits their needs. For this reason communities are increasingly focused on how best to appropriately incorporate STR properties into their existing regulatory and fiscal framework without undue constraints on property owners and managers. As a premier and historic beach destination in Texas, Galveston has a long history of vacation rental properties operating along side its traditional hotel/motel sector, with visitors availing themselves of lodging in boarding houses and private homes since the 19th Century. In an effort to inform this process, local vacation rental properties joined *HomeAway* to commission an analysis of the economic impact of the operation of STRs in the Galveston area.

For the purpose of this study, STRs are defined as any home, condo, or apartment that is rented out by an individual or property manager. Any properties self-identifying as a short-term or vacation rentals, as well as any property listed on major web-based short term and vacation rental websites, were included. These properties tend to be rented out for leisure travel and for less than a month at a time.

The report that follows provides an overview of trends in the Galveston area, specific characteristics of the local short term rental market, and a discussion of the methodology, findings, and conclusions of the economic impact analysis. The economic impacts of the STRs in Galveston are estimated at the metropolitan statistical area level, specifically the Houston-Sugar Land-Baytown MSA. While the vast majority of the STRs, and indeed the Galveston area tourism-related direct economic activity, is located on Galveston Island, the indirect and induced effects of this activity ripple out throughout the entire region.

The overall impact calculations are impressive, as Galveston area STRs created \$283.6 million in total economic activity and accounted for over 3,100 jobs in 2013.

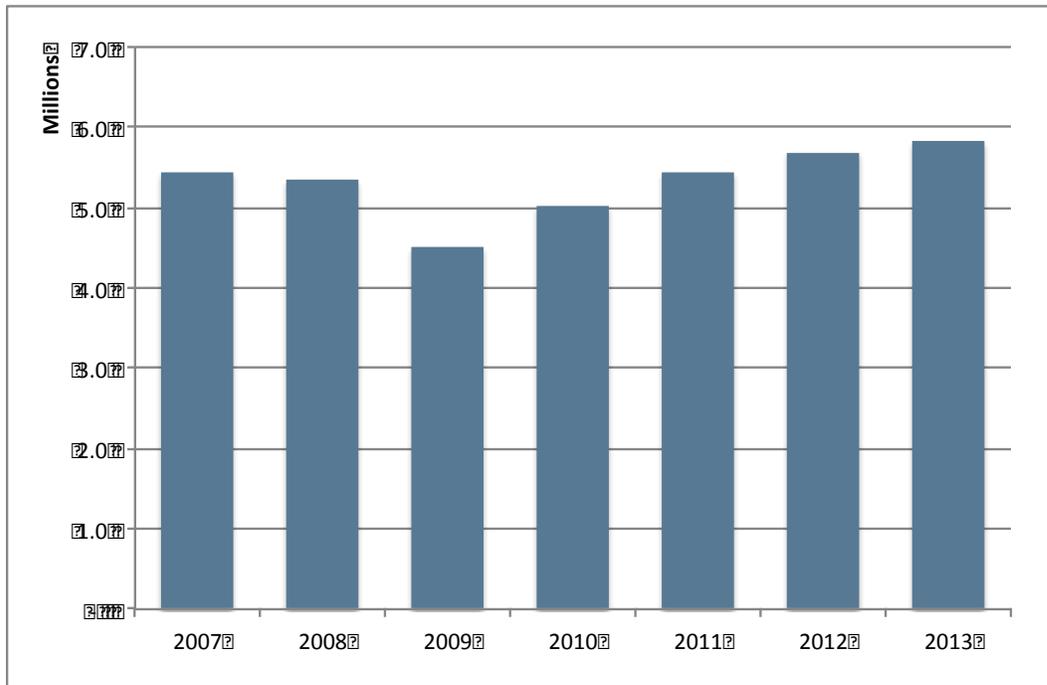
Tourism and the Economy of Galveston

Overall Context

Tourism is a key driver of the Galveston area economy. The island is one of the oldest tourist destinations in Texas and the state's first cruise port. Visitors come to Galveston for the 32 miles of gorgeous local beaches, historic structures, southern charm, natural beauty, and wildlife. Events hosted by Galveston such as the Lone Star Rally and Mardi Gras are also a draw. The area saw a peak of more than 5.8 million visitors in 2013, an

increase of 7.1 percent over the previous record of visitors set in 2007. According to a report commissioned by the Galveston Island Convention and Visitors Bureau (Galveston CVB), visitors to Galveston Island spent \$687.2 million in 2013 with a total economic impact of \$951.8 million. Tourism-generated tax revenues, not including hotel occupancy tax revenues, accounted for more than half of the City of Galveston's General Fund budget of \$42.9 million in 2013.

Figure 1: Total Visitors to Galveston Island



Source: Tourism Economics. Economic Impact of Tourism on Galveston Island, Texas. 2013. Prepared for Galveston Island Convention and Visitor's Bureau.

Tourism and tourist spending in Galveston has rebounded significantly in the years since Hurricane Ike in 2008 and the effects of the global financial crisis and resulting recession. Since the low point in 2009, the average daily rate for hotel rooms has increased by nearly 25 percent. Over the same period, the area has added a net total of only 578 new hotel rooms (or an increase of 11.6 percent in hotel supply). This indicates that Galveston's accommodations market is tightening as hotel owners and operators are having trouble fulfilling the demand for hotel rooms. Similarly, the occupancy rate in 2012 and 2013 rebounded to 2007 levels.

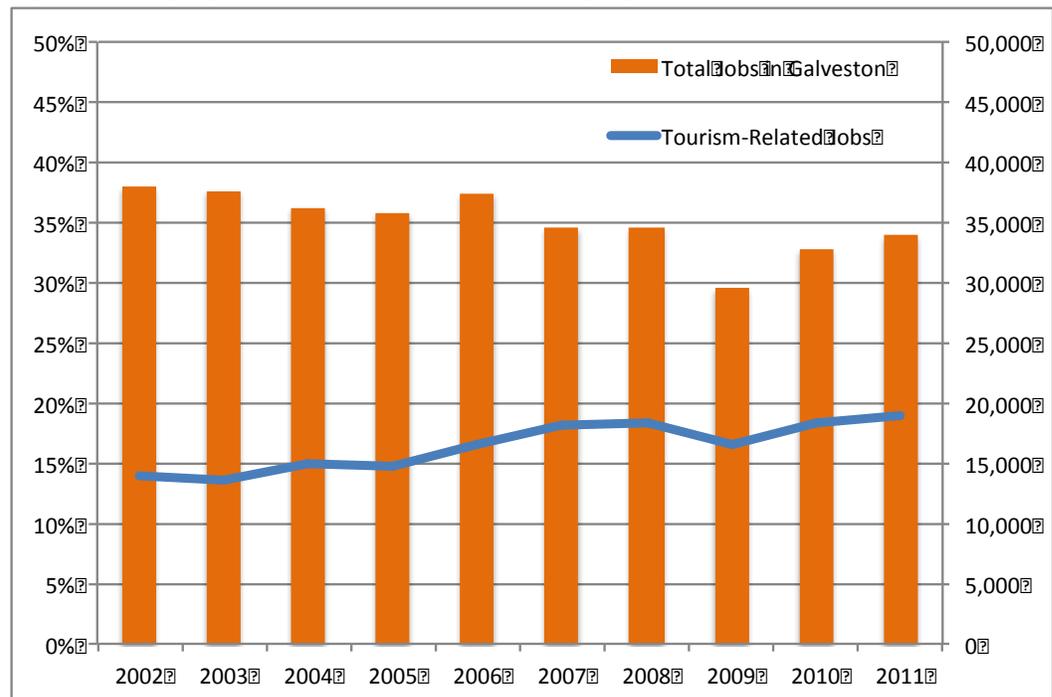
Table 1: Hotel Industry Indicators – City of Galveston

Year	Hotel Rooms	Total Room Revenue	Daily Rate	Occupancy Rate
2007	5,193	\$116,431,000	\$120.03	51.2%
2008	5,042	\$132,083,000	\$127.25	56.4%
2009	4,571	\$99,609,000	\$118.72	50.3%
2010	4,975	\$99,465,000	\$121.74	45.0%
2011	5,109	\$113,880,000	\$128.24	47.6%
2012	5,008	\$126,713,000	\$134.23	51.6%
2013	5,149	\$136,712,000	\$146.22	49.7%

Source: Source Strategies, Inc. (Market Texas Tourism program, Office of the Governor)

The Galveston CVB estimates that more than one in every three jobs in Galveston is attributable to direct, indirect, or induced spending by visitors. According to the US Census Bureau, local employment in industries directly related to tourism has risen steadily over the past decade. Tourism-related employment has outpaced overall job growth in Galveston; it increased by more than 26 percent between 2002 and 2011. This occurred despite the contraction of total jobs in the City of Galveston by 10.7 percent over the same period.

Figure 2: Employment and Tourism-Related Employment in Galveston



Source: Census Bureau's Longitudinal Employer-Household Dynamics

Economic Impact Calculations

Galveston STRs Footprint

STRs are an essential part of the Galveston area lodging market. Many of the property managers and rental agencies have been in operation for decades. The approximately 1,700 STR properties in Galveston booked more than 160,000 nights in 2013.

Moreover, in 2013 visitors using STRs accounted for nearly a third of all direct tourism spending in the Galveston area, representing a budget-friendly option for families and other groups. The weighted average daily rate for a STR property in Galveston in 2013 was \$304. With an average of 2.7 rooms, this is a significant cost savings per room when compared to average hotel room rate of \$146.

STRs serve a specific segment of the Galveston tourism market. The average STR user has different needs, and is looking for a different experience, than that of the average Galveston visitor. The average STR user travels to Galveston in a party of approximately 7.1 people and stays for 4.3 nights. For all overnight visitors to the Galveston area, the average party size is 2.8 and the average length of stay is 2.6 nights.

The economic impact of STRs in Galveston in 2013 was calculated by first estimating the total direct spending by visitors using short term rentals. Next, total direct spending by STR users was calculated. Using these direct spending figures, specific multipliers provided by the US Bureau of Economic Analysis RIMS II industry model for the Houston-Sugar Land-Baytown MSA were used to estimate the ripple effects that are attributable to the direct spending; the combination forms the total economic impact.

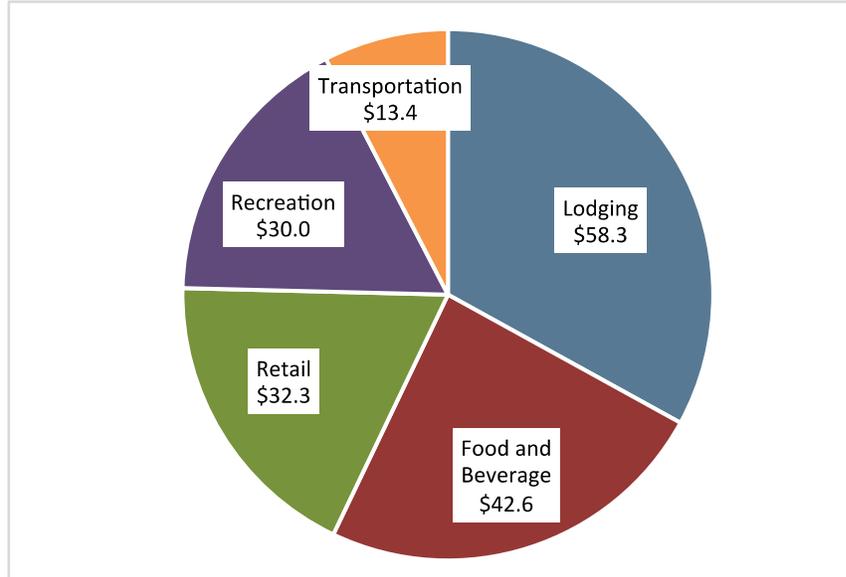
Direct STR-Related Spending Estimates

Using a combination of data provided directly by STR property owners, managers, and web-based vacation rental marketplaces it was possible to estimate the aggregate direct spending on lodging by short term rental users as \$58.3 million in 2013. This estimated value was validated using local stakeholder information and publicly available datasets including the Comptroller of Public Accounts' Hotel Occupancy Tax and the Office of the Governor's Economic Development and Tourism Division Market Texas Tourism datasets.

The proportion of total local tourism spending attributable to lodging, using analysis conducted by the Galveston Island Convention and Visitors Bureau, was applied to this aggregate direct short term rental spending figure to calculate the amount of total direct spending by short term renters. This ratio of direct spending in different industry categories (i.e. lodging, food and beverage, recreation, retail, and transportation) was validated using data from the US Bureau of Economic Analysis' Travel and Tourism Satellite Accounts dataset. For example, for every \$100 a traveler spent on lodging,

they spent an additional \$73 on food, \$23 on local transportation, \$52 on recreation activities, and \$55 on retail shopping in the local economy. As a result, the total direct spending by STR visitors in the Galveston area for 2013 is estimated at \$176.7 million.

Figure 3: 2013 Total Direct Short Term Rental Visitor Spending (\$millions)



Source: Galveston Island Convention and Visitor's Bureau;

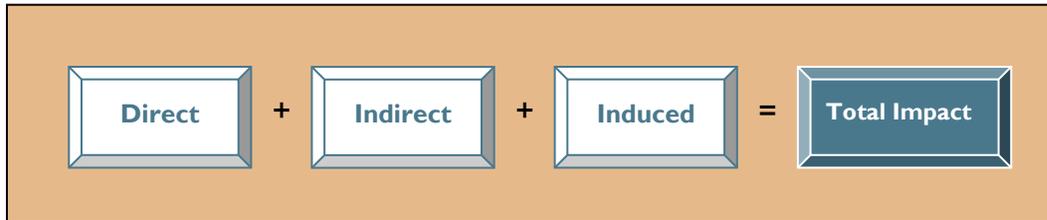
Economic Impact Methodology

The economic impacts extend beyond the direct activity outlined above. In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payments made by a visitor to a hotel operator or taxi driver are examples of a direct effect.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is spent in the local economy.

Figure 4: The Flow of Economic Impacts



Once the ripple effects have been calculated, the results can be expressed in a number of ways. Four of the most common are “Output,” which is equivalent to sales; “Value-Added,” which is sales minus the cost of good sold; “Earnings,” which represents the compensation to employees and proprietors; and “Employment,” which refers to permanent, full-time jobs that have been created in the local economy.

The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. Larger multipliers mean greater interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in output is produced in all sectors.

Economic Impact Results

The estimated \$176.7 million total direct spending by visitors to Galveston staying in STR properties in 2013 created a total economic output of \$283.6 million, value-added of \$163.9 million, earnings of \$85.6 million, and 3,117 jobs in the local Galveston economy. The majority of this activity is concentrated in the sectors with the highest direct tourism spending, such as food services; arts, entertainment, and recreation; and retail trade. Even so, the spending patterns of STR users, and particularly the indirect and induced effects of their lodging spending, are different than those visitors staying in traditional hotel/motel accommodations. To capture this difference, the total impact of lodging spending by STR users was calculated through the Households sector of the economy, rather than the Accommodations sector.

Additionally, both local jurisdictions and the State of Texas benefit from taxes assessed on direct spending by visitors, as well as realizing revenue associated with the ripple effects of that spending. In general, tourism is an attractive revenue source for local governments, especially since these taxes are not imposed on local residents.

Table 2: Economic Impact of Short Term Rentals in Galveston, Texas

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$226,587	\$76,144	\$43,810	3
Mining	\$2,075,291	\$1,049,007	\$424,444	6
Utilities	\$6,565,232	\$3,926,389	\$1,360,175	13
Construction	\$1,960,522	\$979,453	\$759,350	16
Manufacturing	\$17,779,734	\$5,256,182	\$3,007,461	55
Wholesale trade	\$10,153,958	\$6,856,134	\$3,284,732	46
Retail trade	\$31,353,211	\$20,537,930	\$10,958,258	400
Transportation & warehousing	\$21,366,358	\$8,273,247	\$7,042,877	195
Information	\$8,092,078	\$4,431,403	\$1,796,157	29
Finance & insurance	\$17,901,270	\$10,385,077	\$5,269,337	131
Real estate and rental & leasing	\$33,466,808	\$24,840,165	\$2,586,286	151
Prof., scientific, & tech. services	\$11,062,346	\$7,399,092	\$5,126,350	79
Management of companies	\$4,801,860	\$2,980,013	\$1,981,310	28
Admin. & waste services	\$7,338,099	\$4,821,746	\$3,307,525	127
Educational services	\$2,164,493	\$1,231,907	\$904,872	33
Health care & social assistance	\$16,426,945	\$10,006,519	\$7,798,057	175
Arts, entertainment, & recreation	\$31,878,465	\$20,099,899	\$11,043,458	669
Accommodation	\$1,263,048	\$809,106	\$385,519	14
Food services & drinking places	\$49,189,742	\$25,594,126	\$15,812,621	879
Other services	\$8,579,750	\$4,364,730	\$2,671,504	67
Total	\$283,645,796	\$163,918,268	\$85,564,103	3,117

Source: TXP

Conclusions

STR related spending is an important part of the tourism sector in Galveston, ultimately creating thousands of jobs and millions of dollars of earnings and tax revenue for the community each year. This appears to be largely net new activity; different types of lodging serve discrete segments of the market, and the overall economy appears to be the largest determining factor in tourism performance. As with most sectors of the economy, the battle for tourism dollars is intense, meaning that diversity within the accommodations market is essential to meeting customer demand and remaining competitive with other cities and regions throughout the nation and world. Seen in this light, STRs are a highly valuable asset in Galveston's tourism portfolio.





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