



The Local Economic
Impact of Participating
Short Term Rentals
In Chicago



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Overview

The Short Term Rental Advocacy Center (STRAC) was formed in 2013 by a coalition of several short term rental marketplace stakeholders as a means to engage travelers, property owners, and local residents in a conversation about the regulation of this growing market segment. STRAC member companies have more than 1.1 million listings worldwide. As short term rentals continue to grow in popularity and use, it is vital that all stakeholders have a clear understanding of the benefits presented by this expanding market segment. To this end, STRAC contracted TXP, Inc. to assess the economic impacts of short term rentals attributable to their customers (termed “participating short term rentals” in this report) in Chicago, IL.

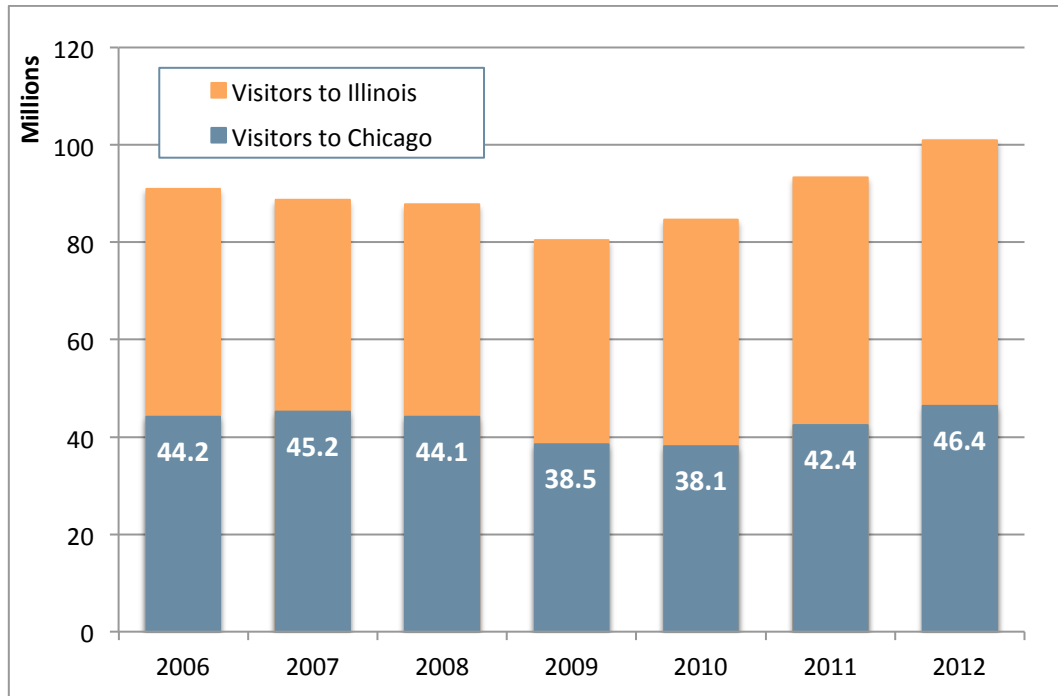
This report details the economic impact of participating short term rentals in Chicago, IL. The impact is significant, as participating short term rental activity in 2013 created total economic output of \$108.0 million and 920 jobs in the local Chicago economy. The report provides an overview of trends in the overall tourism sector in the Chicago area, followed by the results of the analysis and conclusions. The input data on direct accommodations spending was provided by STRAC member companies and reflects estimates for 2013. While the vast majority of the properties are located in the city of Chicago, Cook County was used as the study area for analytical consistency, and all impacts are estimated at the county level.

Tourism and the Economy of Chicago

Overall Context

Tourism is a key component of Chicago’s economy. Visitor spending is an important generator of local employment and economic activity as well as state and local tax revenue. As of 2012, Chicago ranked as the ninth most popular destination among all US-cities for international travellers. With more than 46 million visitors, Chicago accounted for nearly half of all the visitors to the State of Illinois. Mayor Rahm Emanuel has announced the goal of 55 million annual visitors and a ranking among the top five US cities for international travellers by 2020. Employment directly related to tourism accounts for one out of every ten jobs in Cook County. The Arts, Entertainment, and Recreation sector as well as the Accommodation and Food Services sector have seen strong growth in employment. With more than 182,000 workers in 2012, the Accommodation and Food Services sector in Cook County has increased employment by 10.8 percent over the past five years.

Figure 1: Annual Visitors to Chicago and the State of Illinois (millions of visitors)



Source: Illinois Office of Tourism

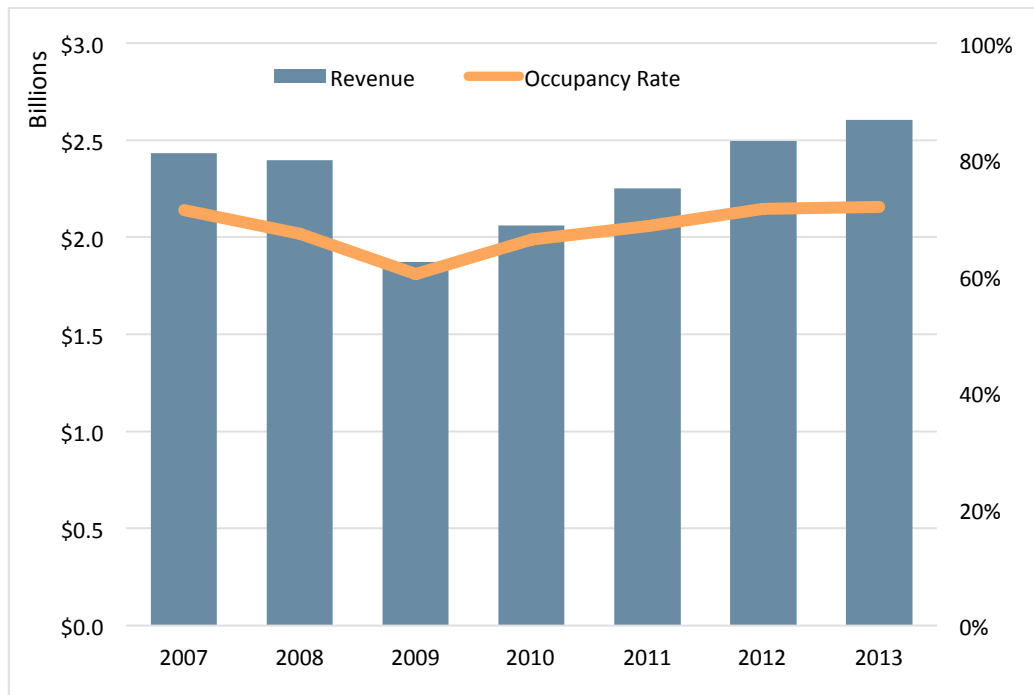
Table 1: Employment by Selected Sectors in Cook County, IL

	Accommodation and Food Services Sector	Arts, Entertainment, and Recreation Sector	Total Employment
2007	164,399	50,438	2,454,503
2008	168,757	52,607	2,495,497
2009	178,399	54,261	2,491,906
2010	179,508	53,660	2,434,186
2011	183,001	53,372	2,385,332
2012	182,080	53,362	2,393,974
Change	10.8%	5.8%	-2.5%

Source: American Community Survey 5-year estimates, US Census Bureau

The global recession clearly had an impact on visitation and tourism in Chicago, although the sector has rebounded in the past two years. Smith Travel Research reports that in 2013 both hotel/motel revenue and occupancy rates had reached all time highs of \$2.6 billion and 71.9 percent respectively.

Figure 2: Trends in the Chicago Lodging Sector



Source: Smith Travel Research

Short Term Rentals in Chicago

Chicago's hundreds of events and unique attractions draw a wide range of visitors with diverse interests, needs, and budgets. As the community strives to grow its tourism sector and reputation as a premier leisure destination, a range of lodging options is necessary to meet the diversity of demand. Short term rentals provide an important element of variety in the local accommodations market. In 2013, the participating short term rentals had more than 171,000 nights booked in the 3,620 properties listed in Chicago. While they are still a small part of the overall accommodations sector, in proportion to the more than 17 million hotel and motel room nights rented in 2013, they are vital to the continued growth of Chicago's overall tourism sector.

The weighted average daily rate for participating short term rentals in Cook County, IL was \$138 in 2013. Smith Travel Research found that hotels in the same area had an average daily rate of \$148 in 2013. As many of the short term rental listings in this area are entire homes or condos (and thus have more than one bedroom), this makes short term rentals a budget-friendly option for families and groups. As in most communities, short term rental users tend to stay longer than other visitors. Strategic Marketing and Research Inc reports that the average length of stay for visitors to Chicago was 2.4 nights, while participating short term rental users stayed for 4.5 nights. Visitors staying in participating short term rentals traveled in a group of 2.5 people on average.

Economic Impact Calculations

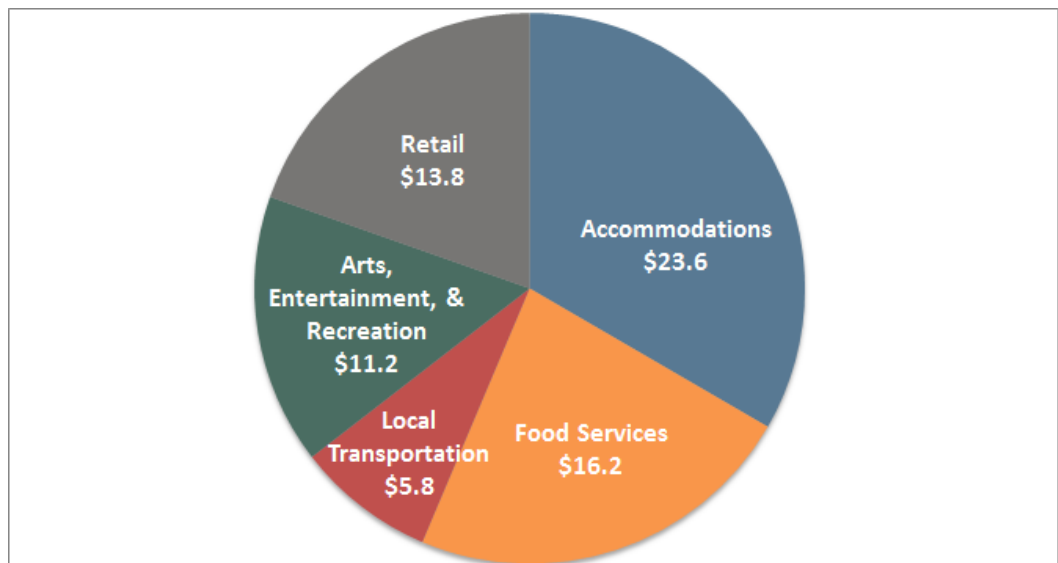
The process for calculating the economic impacts associated with participating short term rentals is fairly straightforward. First, direct spending in different applicable tourism categories associated with the short term rentals is estimated. Next, specific multipliers provided by the Bureau of Economic Analysis RIMS II system for each industry for each county are used to estimate the ripple effects that are attributable to the direct spending; the combination forms the total economic impact.

Direct Spending Estimates

TXP used the data provided by STRAC (specifically number of nights booked, party size, length of stay, and daily rate) to create an aggregated estimate of direct lodging spending by participating short term renters of \$23.6 million during 2013. This data was then combined with data from the US Bureau of Economic Analysis' Travel and Tourism Satellite Accounts to estimate the additional direct spending patterns of visitors to the Chicago area.

For example, for every \$100 a traveller spent on lodging, they spent an additional \$69 on food, \$24 on local transportation, \$48 on arts, entertainment, and recreation activities, and \$59 on retail shopping. As a result, the total direct spending by participating short term renters in Chicago for 2013 is estimated at \$70.6 million. The breakdown of this total direct visitor spending by category is show in Figure 3 below.

Figure 3: Visitor Spending (\$millions)



Source: Travel and Tourism Satellite Accounts; US Bureau of Economic Analysis

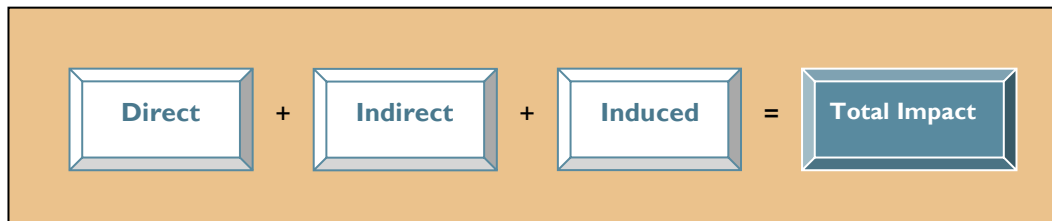
Economic Impact Methodology

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 payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

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 in turn 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,” equivalent to sales; “Value-Added,” which is sales minus the cost of goods 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

Participating short term rental activity in 2013 created total economic output of \$108.0 million, value-added of \$62.0 million, earnings of \$25.8 million, and 920 jobs in the local Chicago 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.

Table 2: Detailed Economic Impact of Participating Short Term Rentals in Cook, IL

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$4,674	-	-	-
Mining	\$8,571	\$6,371	-	-
Utilities	\$690,502	\$412,269	\$87,931	1
Construction	\$433,674	\$217,591	\$114,412	2
Manufacturing	\$8,250,451	\$2,694,318	\$1,107,730	21
Wholesale trade	\$3,460,795	\$2,337,517	\$762,288	11
Retail trade	\$10,886,624	\$7,131,573	\$2,844,644	112
Transportation & warehousing	\$8,865,296	\$3,449,495	\$2,474,011	76
Information	\$4,508,699	\$2,480,360	\$764,246	12
Finance & insurance	\$9,093,375	\$5,276,124	\$1,940,381	34
Real estate and rental & leasing	\$11,802,456	\$8,755,550	\$772,866	45
Prof., scientific, & tech. services	\$4,440,277	\$2,968,518	\$1,596,494	23
Management of companies	\$2,523,338	\$1,565,547	\$552,796	5
Admin. & waste services	\$2,779,915	\$1,829,240	\$976,184	42
Educational services	\$794,594	\$451,151	\$272,226	8
Health care & social assistance	\$5,323,590	\$3,233,278	\$2,008,819	47
Arts, entertainment, & recreation	\$11,986,138	\$7,554,353	\$3,222,426	170
Accommodation	\$704,401	\$450,790	\$179,691	5
Food services & drinking places	\$18,516,723	\$9,634,973	\$5,282,062	286
Other services*	\$2,937,995	\$1,495,773	\$760,302	20
Total	\$108,012,089	\$61,944,792	\$25,719,510	920

Source: TXP

Note: since lodging activity takes place in private homes, the spending for this segment of the impact analysis is run through the Household sector of the economy, rather than Accommodations.

Tax revenue further amplifies the impact of tourism and tourist spending in Chicago's economy. Both local jurisdictions and the State of Illinois benefit from 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.

Conclusions

Short term rentals and STRAC-related spending are an important part of the tourism sector in Chicago, ultimately creating hundreds 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 (see Figure 2). 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, STRAC activity is a highly valuable asset in Chicago's tourism portfolio whose impact is likely to grow over time.



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