



The Local Economic Impact of Participating Short Term Rentals in St. Joseph, MI



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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 St. Joseph, MI.

This report details the economic impact of participating short term rentals firms in St. Joseph, Michigan. The impact is significant, as participating short term rental activity in 2013 created total economic output of \$24.0 million and 300 jobs in the local St. Joseph economy. The report provides an overview of trends in the overall tourism sector in the St. Joseph 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 St. Joseph, Berrien County was used as the study area for analytical consistency, and all impacts are estimated at the county level.

Tourism and the Economy of St. Joseph

Overall Context

One of Michigan’s small beach towns, tourism is a growing component of the St. Joseph economy. Its quaint downtown, historic lighthouses, beautiful beaches, and family-friendly local events have made St. Joseph an increasingly popular destination for travelers looking to get away and enjoy the serenity of small town Michigan. The City of St. Joseph reports that tens of thousands visit the town each year to enjoy the beaches, festivals, and parks.

Visitor spending is an important generator of local employment and economic activity as well as state and local tax revenue. Employment directly related to tourism accounts for a growing number of jobs in the St. Joseph area. While total employment fell by 7.9 percent between 2007 and 2012, employment in the Arts, Entertainment, and Recreation sector has increased by 71.0 percent over the same period. This underscores the growing importance of tourism and tourism-related spending for the local St. Joseph’s economy.

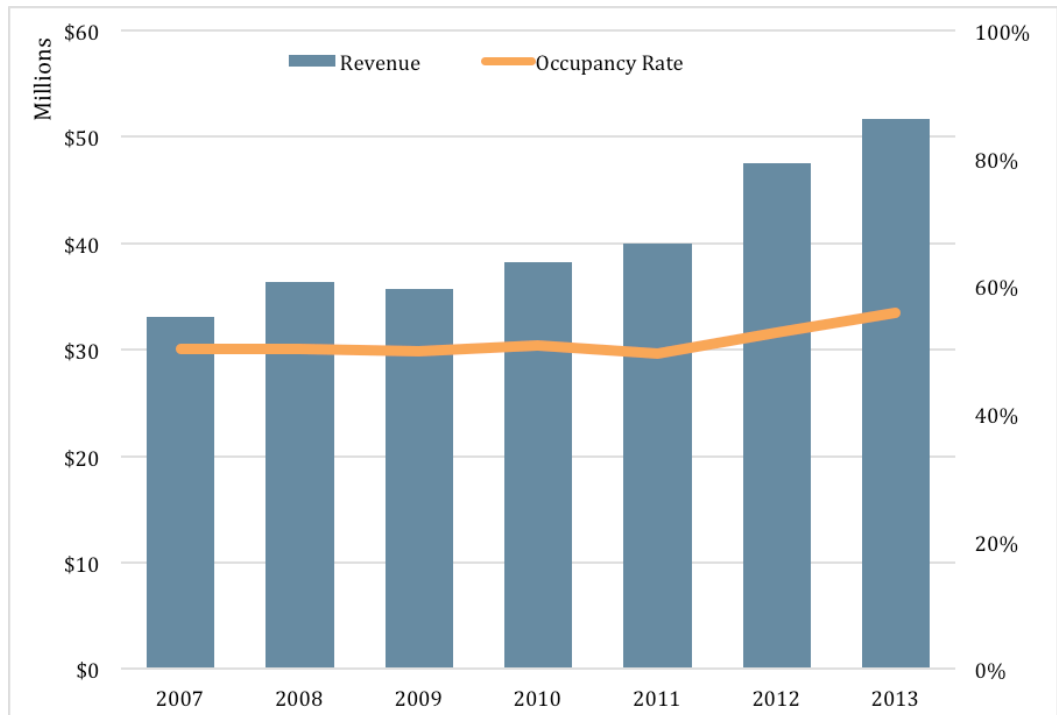
Table 1: Employment by Selected Sectors in Berrien County, MI

	Accommodation and Food Services Sector	Arts, Entertainment, and Recreation Sector	Total Employment
2007	5,138	1,019	72,175
2008	5,664	957	73,655
2009	5,480	1,318	71,964
2010	5,204	1,400	69,275
2011	4,954	1,608	66,723
2012	4,575	1,742	66,505
Change	-11.0%	71.0%	-7.9%

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

Similarly, total annual hotel revenue has seen a dramatic increase as tourists visit St. Joseph in increasing numbers. Annual hotel revenue reached an all time high of \$51.7 million in 2013. In Berrien County, a nearly 50 percent increase from 2007. Hotel occupancy was also at record level in 2013 at 55.8 percent.

Figure 1: Trends in the St. Joseph Lodging Sector



Source: Smith Travel Research, TXP

Short Term Rentals in the St. Joseph Area

Short term rentals are an important part of the accommodations market in St. Joseph. In 2013, the participating short term rentals had more than 18,000 nights booked in the 695 properties listed in the area.

The weighted average daily rate for participating short term rental listings in Berrien County was \$410 in 2013. Smith Travel Research found that hotels in the same area had an average daily rate of \$94 in 2013. As the majority of short term rental listings in this area are entire homes (and thus have multiple bedrooms), this makes short term rentals a budget-friendly option for families and groups. The participating short term rentals reported the average party size as 5.7 people, with an average length of stay as 3.3 nights.

Economic Impact Calculations

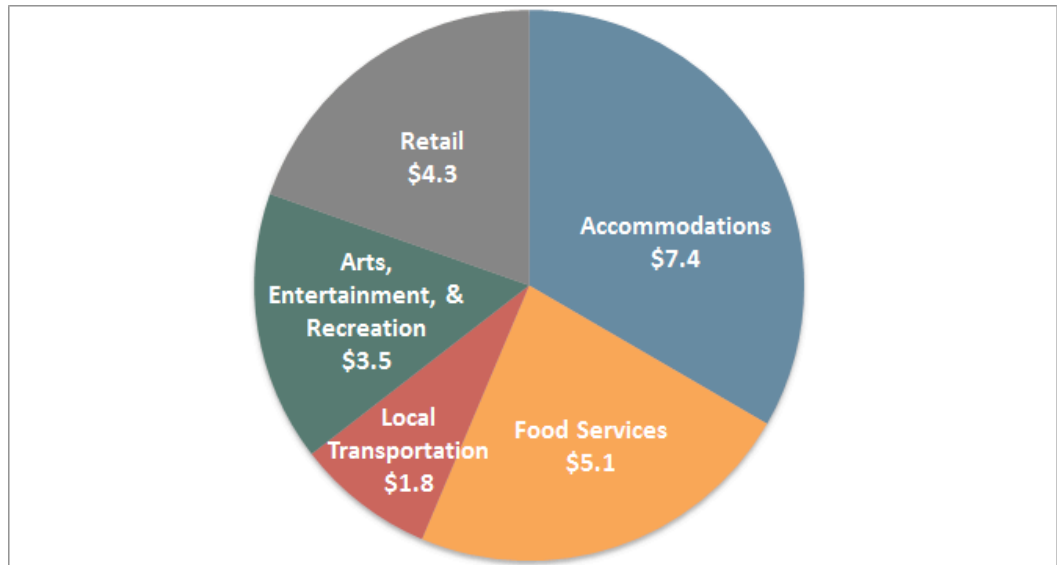
The process for calculating the economic impacts associated with participating short term rentals is fairly straightforward. First, direct spending in different applicable tourism categories associated with the short term rentals is estimated. Next, specific multipliers provided by the Bureau of Economic 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 member companies (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 \$7.4 million during 2013. This data was then combined with data from the US Bureau of Economic Analysis' Travel and Tourism Satellite Accounts to further estimate the additional direct spending patterns of visitors to the St. Joseph area. The breakdown of this total direct visitor spending by category is shown in Figure 2 below.

For example, for every \$100 a traveler 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 short term renters in the St. Joseph area for 2013 is estimated at \$22.2 million.

Figure 2: Visitor Spending (\$millions)



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

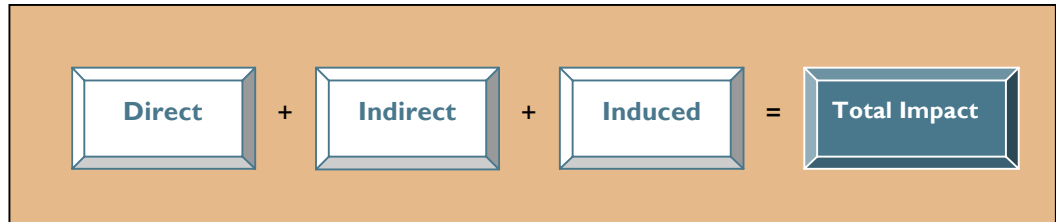
Economic Impact Methodology

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 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,” 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 \$24.0 million, value-added of \$13.7 million, earnings of \$6.4 million, and 300 jobs to the local St. Joseph 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.

Tax revenue further amplifies the impact of tourism and tourist spending in the St. Joseph economy. Both local jurisdictions and the State of Michigan 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.

Table 2: Economic Impact of Participating Short Term Rentals in Berrien County, MI

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$115,468	\$38,808	\$20,404	1
Mining	\$2,001	\$1,783	-	-
Utilities	\$572,104	\$342,796	\$115,624	1
Construction	\$83,995	\$41,372	\$26,313	1
Manufacturing	\$1,239,449	\$417,848	\$213,351	4
Wholesale trade	\$456,296	\$308,100	\$110,507	2
Retail trade	\$3,467,864	\$2,271,964	\$989,204	42
Transportation & warehousing	\$2,201,894	\$794,287	\$667,812	25
Information	\$283,761	\$156,473	\$63,280	1
Finance & insurance	\$632,174	\$413,388	\$137,141	3
Real estate and rental & leasing	\$2,205,530	\$1,635,065	\$74,516	8
Prof., scientific, & tech. services	\$413,553	\$276,356	\$168,217	3
Management of companies	\$153,875	\$95,723	\$22,060	-
Admin. & waste services	\$384,078	\$250,764	\$166,578	7
Educational services	\$147,784	\$84,710	\$60,333	3
Health care & social assistance	\$1,570,543	\$961,272	\$666,600	16
Arts, entertainment, & recreation	\$3,602,942	\$2,273,934	\$1,088,527	69
Accommodation	\$210,189	\$135,158	\$61,594	3
Food services & drinking places	\$5,687,753	\$2,959,242	\$1,603,615	108
Other services*	\$530,051	\$269,336	\$160,266	5
Total	\$23,961,303	\$13,689,572	\$6,395,539	300

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 the Accommodations sector.

Conclusions

Participating short term rental related spending is an important part of the tourism sector in the St. Joseph area, 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 1). 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, short term rentals are a highly valuable asset in St. Joseph's tourism portfolio.





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