



The Local Economic Impact of Participating Coachella Valley Short Term Rentals



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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 the Coachella Valley, CA.

This report details the economic impact of participating short term rentals in California’s Coachella Valley. The impact is significant, as participating short term rental activity in 2013 created total economic output of \$272.0 million and 2,539 jobs in the local Coachella Valley economy. The report provides an overview of trends in the overall tourism sector in the Coachella Valley 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 Coachella Valley, Riverside County was used as the study area for analytical consistency, and all impacts are estimated at the county level.

Tourism and the Economy of the Coachella Valley

Overall Context

Recognized for its natural beauty, chic boutiques, luxury spas, and rocking music festivals, tourism is a key component of the Coachella Valley’s economy. Visitor spending is an important generator of local employment and economic activity as well as state and local tax revenue. The Greater Palm Springs Convention and Visitor’s Bureau estimates that one out of every four jobs in the area are sustained by the tourism industry. Employment in the Accommodation and Food Services sector and the Arts, Entertainment, and Recreation sector has shown strong growth over the past few years. These tourism-related industries have far outpaced the rate at which overall employment has grown in the Coachella Valley, emphasizing the importance of tourism to the region’s economy.

Tourism in the Coachella Valley is driven by the sum of its offerings, but over the past decade, the region has become increasingly well known for its annual music festival. The Coachella Valley Music and Arts Festival hosted nearly 300,000 attendees in 2013, an increase of more than ten times the total attendance at the inaugural festival in

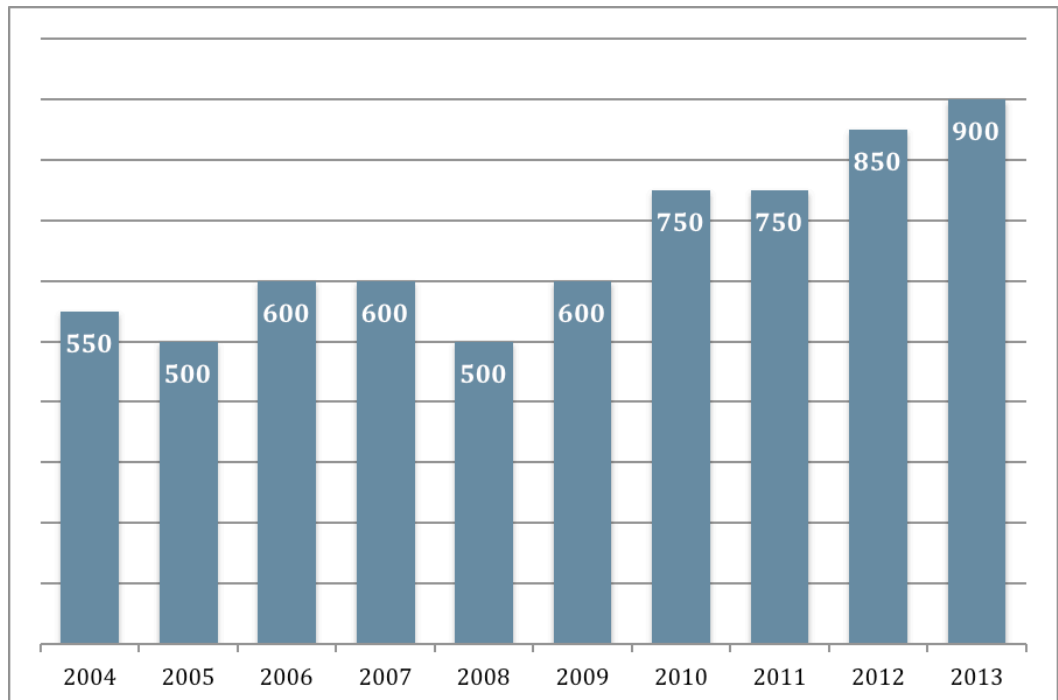
1999. The music festival expanded to two weekends of three days each in 2012 to accommodate growing demand. The estimated daily attendance figures have continued to climb, tending to track patterns in the overall economy.

Table 1: Employment by Selected Sectors in Riverside County, CA

	Accommodation and Food Services Sector	Arts, Entertainment, and Recreation Sector	Total Employment
2007	63,309	26,048	861,029
2008	66,073	28,264	887,214
2009	63,306	29,004	868,285
2010	64,685	27,302	865,369
2011	64,944	27,616	859,040
2012	67,194	30,256	866,110
Change	6.1%	16.2%	0.6%

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

Figure 1: Average Daily Attendance at the Coachella Music Festival (thousands of attendees)

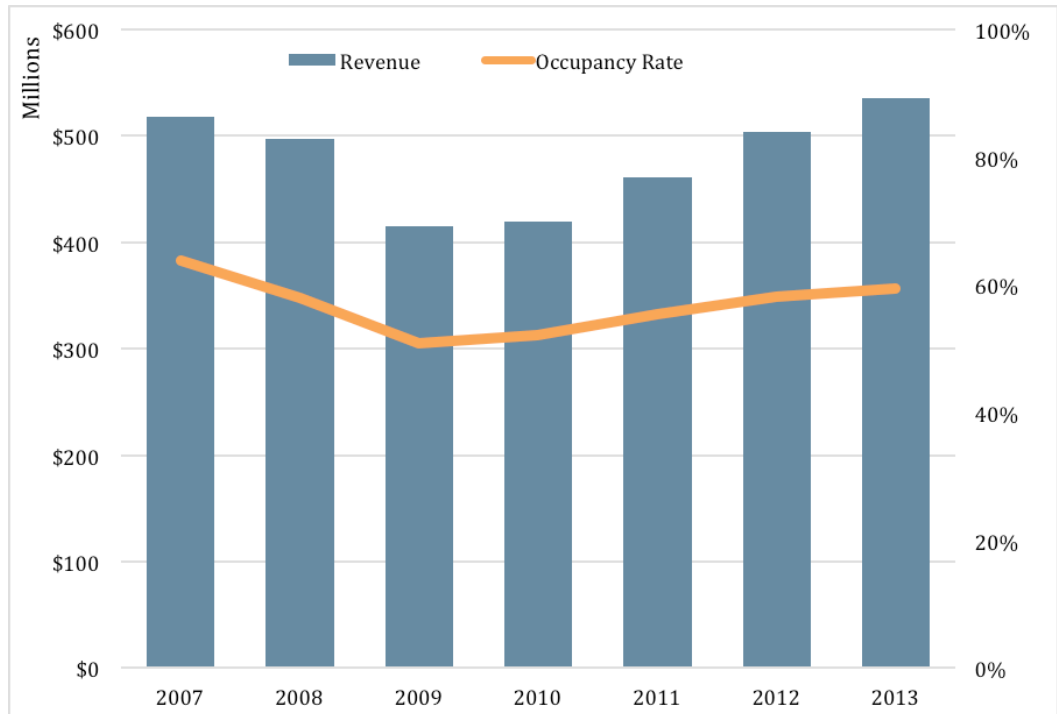


Source: Goldenvoice and the Indio Police Department

Similarly, total annual hotel revenue is dependent on a range of factors. These include overall national economic climate, which impacts demand, as well as industry-specific factors such as the construction of new hotel properties. Annual hotel revenue in

Riverside County declined sharply between 2007 and 2009 but has since rebounded so that the total revenue in 2013, \$535.3 million, has surpassed the previous high in 2007.

Figure 2: Annual Riverside County Hotel Revenue (\$millions)



Source: Smith Travel Research, TXP

Short Term Rentals in the Coachella Valley

Short term rentals are an important part of the accommodations market in the Coachella Valley. In 2013, the participating short term rentals had more than 265,000 nights booked in the 7,754 properties listed in the area.

The weighted average daily rate for participating short term rental listings in Riverside County, CA was \$272 in 2013. Smith Travel Research found that hotels in the same area had an average daily rate of \$113 in 2013. As the majority of 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, the average length of stay for short term rental users is longer than visitors who stay in hotels. The average number of people in the party also tends to be higher. In 2013, participating short term rental users visited the Coachella Valley for an average of 9.1 nights with an average of 4.4 people travelling together.

Economic Impact Calculations

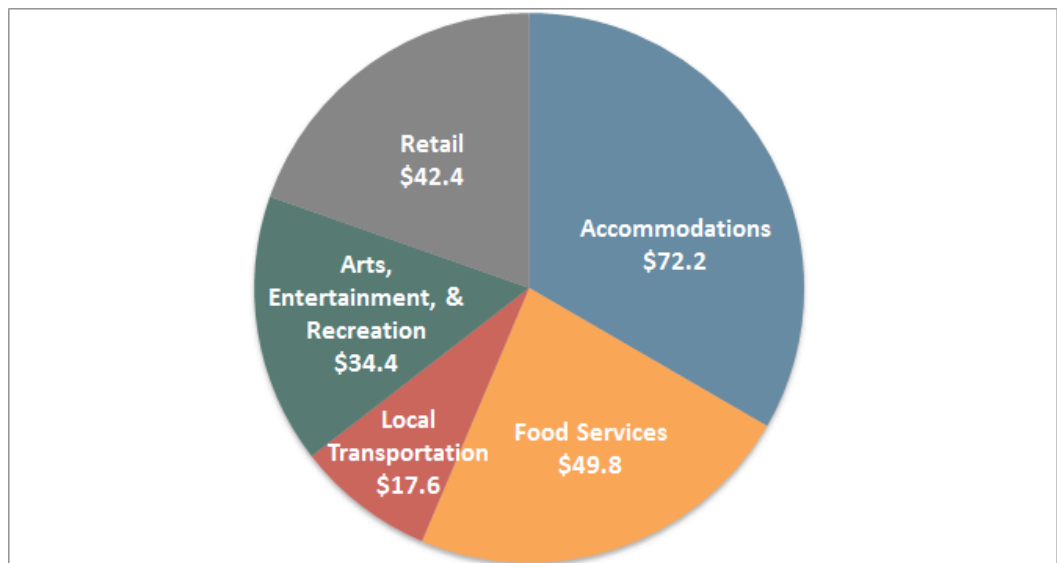
The process for calculating the economic impacts associated with participating short term rentals is fairly straightforward. First, direct spending in different applicable tourism categories associated with the short term rentals is estimated. Next, specific multipliers provided by the Bureau of Economic 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 \$72.2 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 Coachella Valley.

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 Coachella Valley for 2013 is estimated at \$216.5 million. The breakdown of this total direct visitor spending by category is shown in Figure 3 below.

Figure 3: Visitor Spending (\$millions)



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

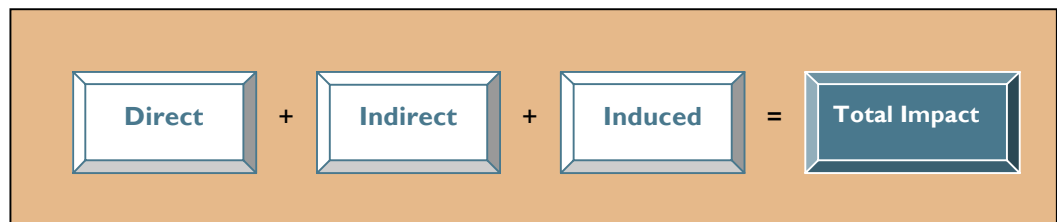
Economic Impact Methodology

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 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 \$272.0 million, value-added of \$155.7 million, earnings of \$70.1 million, and 2,539 jobs to the local Coachella Valley 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: Economic Impact of Participating Short Term Rentals in Riverside County

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$1,219,699	\$410,860	\$221,071	7
Mining	\$98,826	\$53,025	\$19,528	-
Utilities	\$5,012,668	\$2,995,602	\$859,443	8
Construction	\$1,853,774	\$928,188	\$514,629	10
Manufacturing	\$17,477,975	\$6,055,927	\$2,322,748	48
Wholesale trade	\$7,098,913	\$4,793,501	\$1,672,780	26
Retail trade	\$36,321,158	\$23,796,686	\$10,672,578	381
Transportation & warehousing	\$24,116,019	\$9,026,502	\$6,218,930	180
Information	\$8,860,128	\$4,773,210	\$1,521,963	20
Finance & insurance	\$8,071,042	\$5,042,678	\$1,744,741	27
Real estate and rental & leasing	\$29,930,915	\$22,249,107	\$1,837,614	119
Prof., scientific, & tech. services	\$4,931,917	\$3,293,533	\$1,838,748	27
Management of companies	\$1,251,079	\$776,119	\$427,969	5
Admin. & waste services	\$5,731,528	\$3,767,198	\$2,024,304	71
Educational services	\$1,758,103	\$1,004,960	\$643,888	20
Health care & social assistance	\$15,435,823	\$9,519,090	\$6,165,114	125
Arts, entertainment, & recreation	\$35,990,810	\$22,713,770	\$12,206,880	562
Accommodation	\$2,210,639	\$1,421,517	\$629,537	20
Food services & drinking places	\$56,131,884	\$29,209,630	\$16,703,640	841
Other services	\$8,466,187	\$4,313,768	\$2,091,194	49
Total	\$271,969,086	\$155,734,011	\$70,116,228	2,539

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.

Tax revenue further amplifies the impact of tourism and tourist spending in the Coachella Valley's economy. Both local jurisdictions and the State of California 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

Participating short term rental related spending is an important part of the tourism sector in the Coachella Valley, 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 (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, short term rentals are a highly valuable asset in the Coachella Valley's tourism portfolio.



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