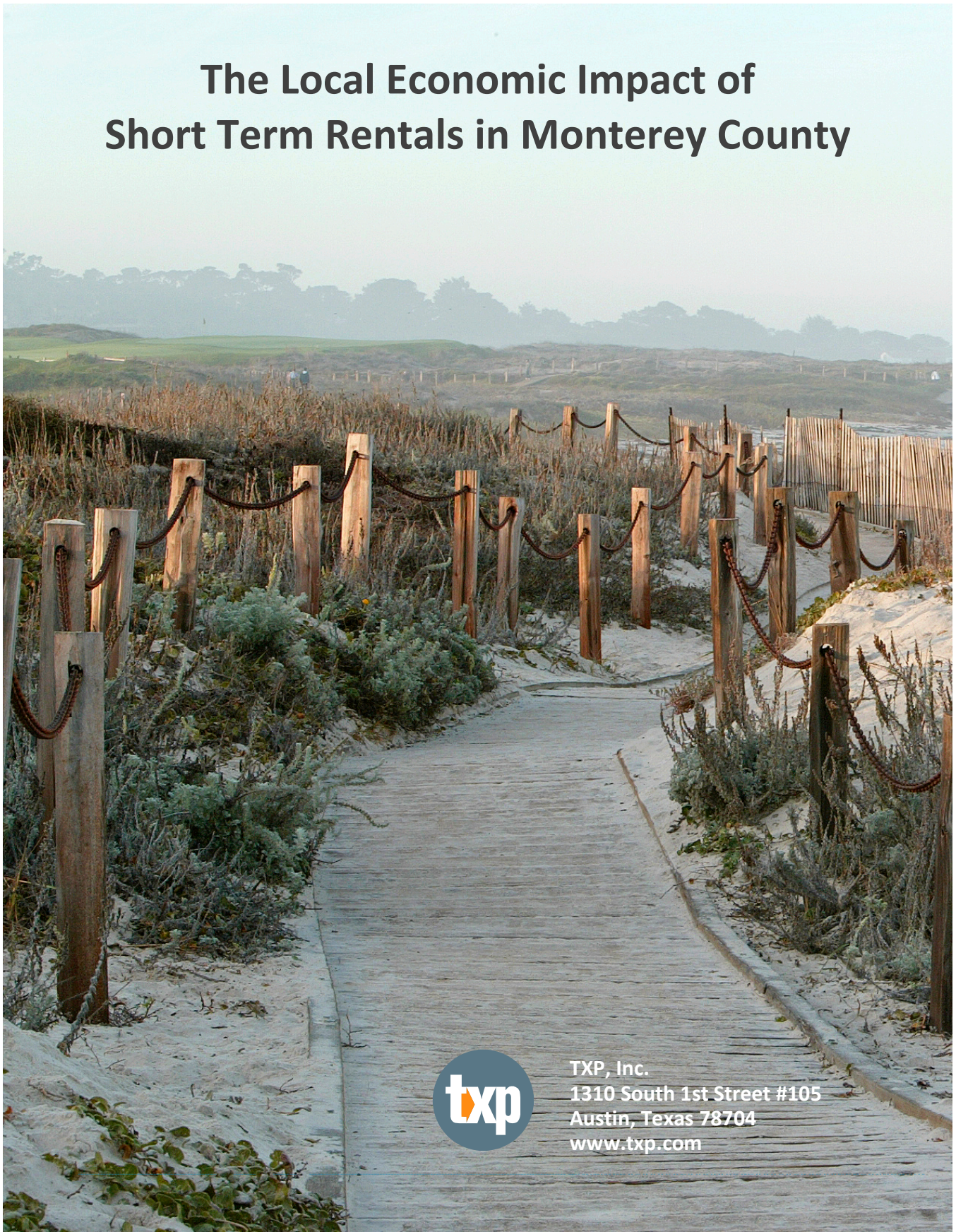


# The Local Economic Impact of Short Term Rentals in Monterey County



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## Overview

Short term rentals (STR) are an increasingly popular lodging choice for travelers in almost all communities in the United States. With the growth of web portals such as *HomeAway*, *VRBO*, 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. In an effort to inform this process the Monterey County Vacation Rental Alliance and Coalition commissioned an analysis of the economic impact of the operation of STRs in Monterey County.

Monterey County has a robust tourism sector and offers a wide variety of experiences for all visitors. From beach vacations to vineyard tours and wine tasting, from outdoor excursions to galleries and art exhibits, from historic architecture to legendary golf courses, Monterey County boasts an incredible diversity of attractions. With visitors traveling to the region for many reasons and a variety of types of trips, it is not surprising that visitors' accommodation needs are also diverse. In order to meet this demand, Monterey County has a long history of vacation rental properties operating along side its hotel/motel sector.

For the purpose of this study, STRs are defined as furnished, private, residential dwelling units that are rented to guests for less than 30 days at a time by an individual or property manager in Monterey County. Any properties self-identifying as short term or vacation rentals, as well as properties listed on major short term and vacation rental websites, were included. These properties tend to be rented out for leisure travel.

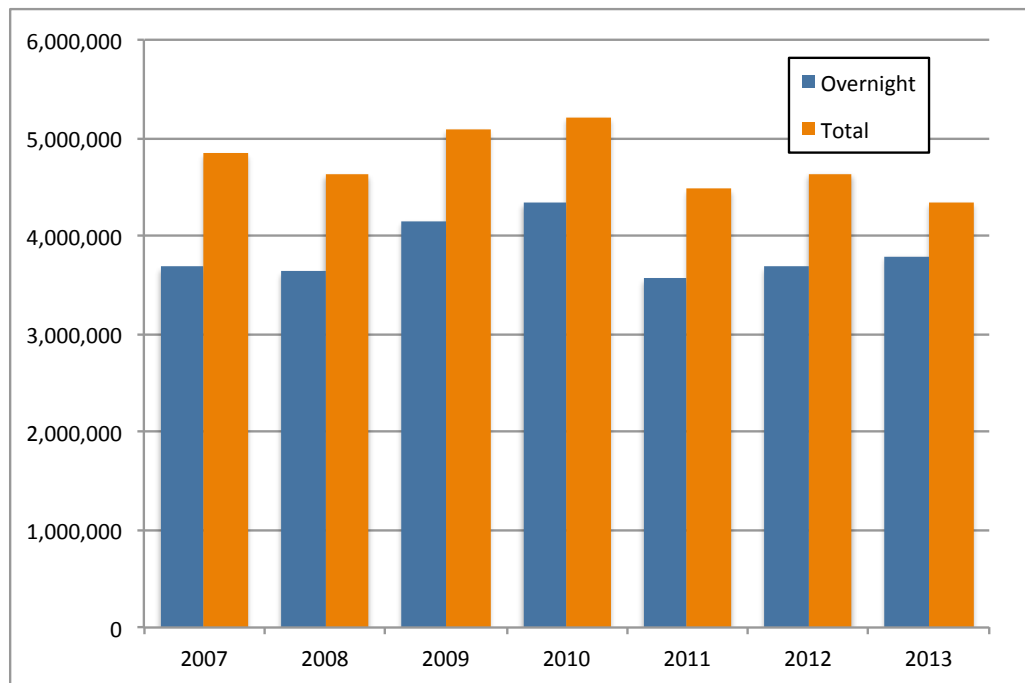
The report that follows provides an overview of trends in Monterey County, specific characteristics of the local STR market, and a discussion of the methodology, findings, and conclusions of the economic impact analysis. STRs are a key part of the accommodations sector in Monterey County and a vital part of the overall local tourism economy. The overall economic impact of short term rentals in Monterey County is significant. STRs accounted for \$131.8 million in total local economic activity and more than 1,400 jobs in 2013.

## Tourism and the Economy of Monterey County

### Overall Context

The tourism sector is an important part of the Monterey County economy. Dean Runyan Associates estimates that more than 4.3 million total visitors traveled to communities in Monterey County in 2013, spending more than \$2.3 billion collectively that year. This direct tourist spending supported nearly 68,000 jobs in industries including the arts, entertainment, and recreation, retail sales, accommodations and food services, and auto rental sectors. Tourism also contributes to the revenues of local, regional, and state jurisdictions in the form of tax receipts. In 2013, visitors to Monterey County accounted for more than \$147.5 million in state and local taxes.

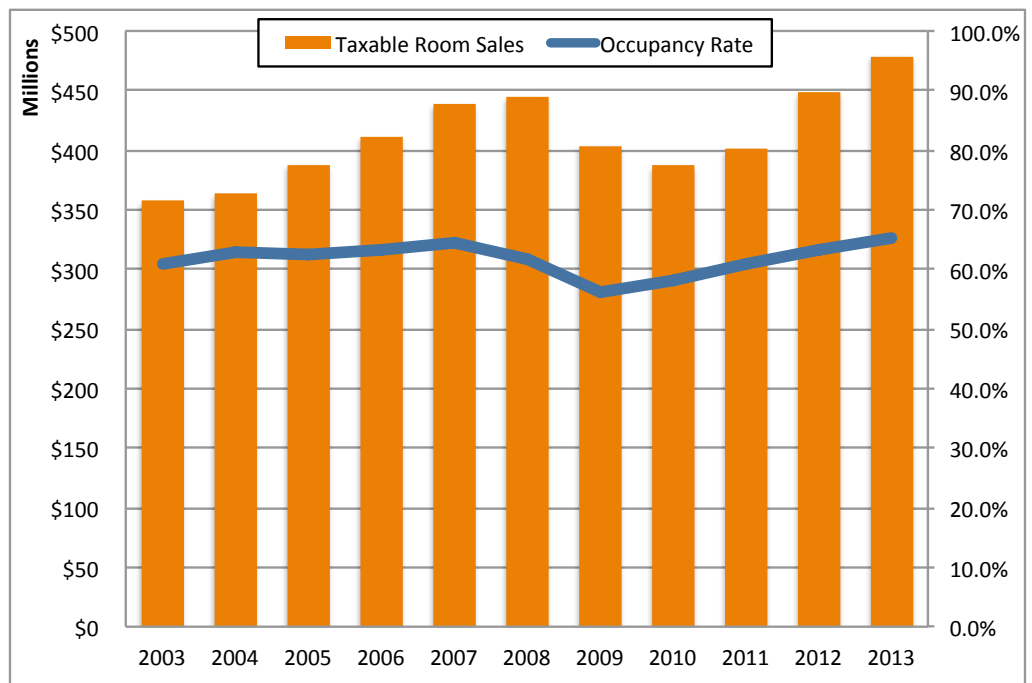
**Figure 1: Number of Visitors to Monterey County**



Source: TNS TravelsAmerica

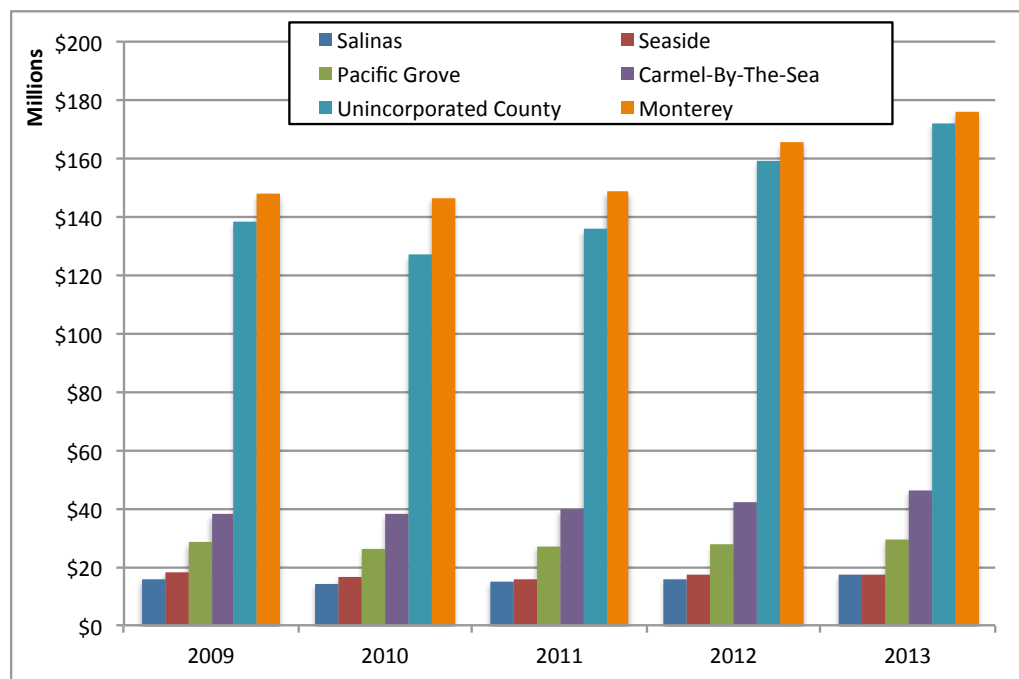
Hotel sales and occupancy rates in Monterey County closely follow larger regional economic trends. Over the past few years, hotel activity has largely recovered from the global recession. In 2013, total taxable sales and annual average occupancy rates both reached all time highs of \$479.2 million and 65.3 percent, respectively (see Figure 2). The City of Monterey and the unincorporated County are the dominant areas in Monterey County for hotel sales. In 2013 they accounted for nearly three quarters of all taxable hotel sales. Almost all communities in Monterey County have seen steady growth in their hotel sales since 2009, with most of the increased hotel sales going to the largest existing markets – the unincorporated County areas, Monterey, and Carmel-by-the-Sea (see Figure 3).

**Figure 2: Taxable Sales and Occupancy Rate for Hotels in Monterey County**



Source: Monterey County Convention & Visitors Bureau; Dean Runyan

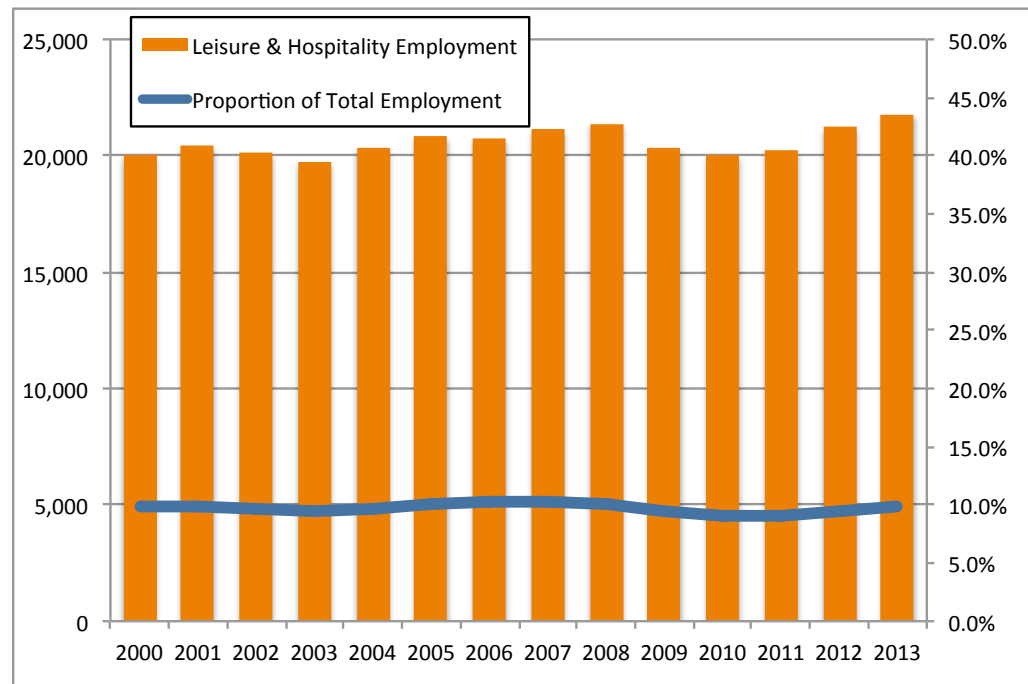
**Figure 3: Taxable Hotel Sales by Jurisdiction**



Source: Monterey County Convention & Visitors Bureau; Dean Runyan

Tourism directly accounts for nearly 1 out of every 10 jobs in the Monterey area. More than 21,800 workers were employed in the Leisure and Hospitality industries in 2013. This is nearly a ten percent growth in employment in tourism-related jobs since 2000 (see Figure 4).

**Figure 4: Tourism-Related Employment in Monterey County**



Source: State of California, Employment Development Department

### Short Term Rentals in Monterey County

STRs in Monterey County provide an essential component of the area’s lodging market. There is significant interest among both property owners and visitors for participating in the STR market. Visitors to Monterey County purchased approximately 350,000 STR room-nights in 2013. The owners and managers of STR properties report that their guests find STRs to be the best fit for their accommodation needs. In fact, some STR guests indicate they would not visit Monterey County if STRs were not available. Additionally, STR users tend to stay longer and travel in larger groups than other overnight visitors to Monterey County.

While calculating the exact size of the vacation rental market is extremely challenging given its diverse and diffuse nature, nearly 2,000 properties are listed in the area across a number of web-based vacation rental platforms. By accounting for duplicative properties, as well as those not represented on these websites, it is estimated that there were approximately 1,500 housing units used as STRs during 2013. This represents approximately 1.1 percent of the entire housing market in Monterey County.

The legal status of STRs in Monterey County varies significantly between each of the 12 municipalities and the unincorporated county area. In some cities, such as Carmel-by-the-Sea, STRs have been explicitly prohibited. In other communities, such as Pacific Grove, STRs are permitted with a licensing fee. Communities without a regulatory framework permitting STRs follow different procedures detecting violators and issuing fines. The historically informal nature of many STRs, as well as inconsistencies between existing regulations and enforcement, creates a level of uncertainty that can contribute to conflict between STR owners, guests, and neighbors.

## Economic Impact Calculations

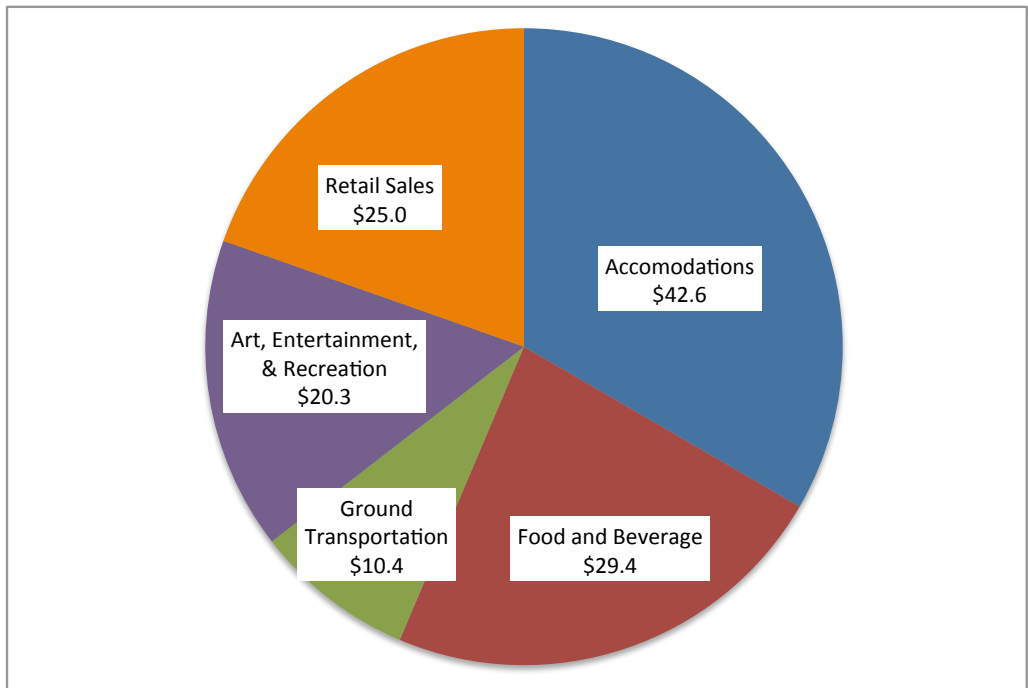
The economic impact of STRs in Monterey County in 2013 was calculated by first estimating the direct accommodations spending by visitors using STRs. Next, this figure was used as the basis of calculating total STR direct spending. Using these figures, specific multipliers provided by the US Bureau of Economic Analysis RIMS II industry model for Monterey County were used to estimate the ripple effects of the induced and indirect impacts; the combination of these ripple effects and the direct spending forms the total economic impact.

### Direct STR-Related Spending Estimates

Using a combination of data provided 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 \$42.6 million in 2013. As a part of the study, survey data was collected from property owners and managers for nearly 300 local properties. *HomeAway* provided data for an additional 724 properties throughout the Monterey area. The total estimated spending on lodgings for STRs in Monterey County was validated using local stakeholder information and publicly available datasets including the California Travel and Tourism Commission's travel impact figures, produced by Dean Runyan Associates.

The proportion of total local tourism spending attributable to lodging 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 every \$100 a traveler spent on lodging, they spent an additional \$69 on food, \$24 on local transportation, \$48 on recreation activities, and \$59 on retail shopping in the local economy. As a result, the total direct spending by STR visitors in the Monterey area for 2013 is estimated at \$127.7 million (see Figure 5).

**Figure 5: 2013 Total Direct Short Term Rental Visitor Spending (\$millions)**



Source: US Bureau of Economic Analysis; TXP, Inc.

### **Economic Impact Methodology**

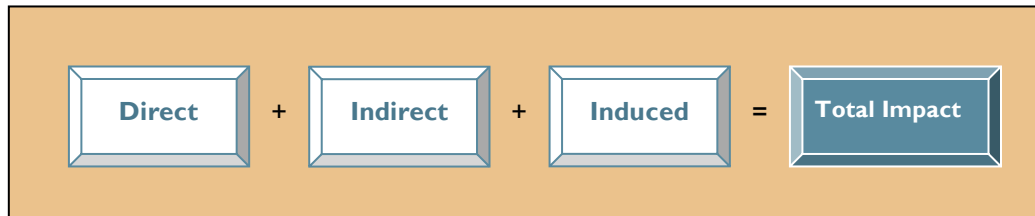
The total economic impacts of STRs extend beyond the direct spending by visitors as those payments ripple through the rest of the economy. In an input-output analysis of new economic activity, the total impact is the result of three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payments made by a visitor to a restaurant 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 restaurant 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 restaurant 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.

Once the ripple effects have been calculated, the results can be expressed in a number of ways. Four of the most common are “Activity,” which is 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.

**Figure 6: The Flow of Economic Impacts**



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 activity is produced in all sectors.

### **Economic Impact Results**

The estimated \$127.7 million total direct spending by visitors to Monterey County staying in STR properties in 2013 created a total economic activity of \$131.8 million in output, value-added of \$75.9 million, earnings of \$38.9 million, and 1,439 jobs in the Monterey area economy (see Figure 7). The majority of this activity is concentrated in the sectors with the highest direct tourism spending, such as Food Services and Arts, Entertainment, and Recreation. 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. The following table details the total industry-level impact of STRs in Monterey County. Further benefits accrue to both local jurisdictions and the State of California from taxes assessed on direct spending by visitors, as well as realizing revenue associated with the ripple effects of that spending.



**Figure 7: Economic Impact of Short Term Rentals in Monterey County**

Industry	Activity	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$515,636	\$181,352	\$112,149	4
Mining	\$134,417	\$68,713	\$24,906	0
Utilities	\$829,110	\$496,206	\$87,346	1
Construction	\$443,373	\$219,556	\$149,464	3
Manufacturing	\$2,889,662	\$900,827	\$464,456	10
Wholesale trade	\$3,464,773	\$2,338,137	\$1,011,125	16
Retail trade	\$19,346,721	\$12,674,419	\$6,322,561	226
Transportation & warehousing	\$13,004,200	\$4,624,130	\$4,198,379	124
Information	\$1,768,570	\$931,194	\$420,052	5
Finance & insurance	\$3,577,194	\$2,136,488	\$890,228	16
Real estate and rental & leasing	\$13,021,905	\$9,683,184	\$550,064	35
Prof., scientific, & tech. services	\$2,061,162	\$1,379,227	\$970,023	14
Management of companies	\$1,384,353	\$856,972	\$565,291	6
Admin. & waste services	\$1,719,675	\$1,105,408	\$659,134	22
Educational services	\$799,395	\$453,626	\$314,269	10
Health care & social assistance	\$7,586,369	\$4,608,068	\$3,387,466	69
Arts, entertainment, & recreation	\$21,159,009	\$13,347,688	\$7,064,650	324
Accommodation	\$1,207,503	\$776,904	\$370,058	11
Food services & drinking places	\$32,759,797	\$17,046,079	\$10,239,008	516
Other services	\$4,077,985	\$2,079,481	\$1,148,183	27
<b>Total</b>	<b>\$131,750,809</b>	<b>\$75,907,661</b>	<b>\$38,948,812</b>	<b>1,439</b>

Source: TXP

## Conclusions

Short term rentals and STR guest spending are a vital part of the tourism sector in Monterey County, ultimately creating thousands of jobs and millions of dollars of economic activity, wages, and tax revenue for the community each year. This appears to be largely net new spending as increases in vacation rental activity have coincided with growth in both hotel room revenue and occupancy rates in Monterey County. STRs are complementary, rather than substitute, goods in the local accommodations market. Different types of lodging serve discrete segments of the visitor market, and diversity within the accommodations market is essential to meeting customer demand. As such, STRs are an essential element of the Monterey County lodging portfolio.

## About TXP, Inc.

TXP is an economic analysis and public policy consulting firm founded in 1987 in Austin, Texas. Since then, TXP has grown into a team of professionals whose diverse backgrounds allow us to craft customized solutions to client problems. Our clients have discovered that TXP is the firm to hire when there is not an immediate, obvious, or simple solution to their economic or public policy challenge. Our reputation for having the right people to analyze issues from a variety of perspectives has made TXP the firm to call first for professionals in the public sector and business arenas. In addition to drawing on the expertise of our firm members, we regularly partner with urban planning, engineering, and public policy firms — as well as Ph.D.s in varying disciplines — to put together teams uniquely suited to our clients' needs.

TXP has worked with a wide range of not-for-profits and private sector clients to provide illumination through analytical support, always with a strategic view of the big picture. Members of TXP are involved in the community and understand the challenges faced by an increasingly complex world, as heightened media attention and an ever more diverse set of stakeholders shine a brighter spotlight on public decision-making and public policy.

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