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Measuring the Economic Impact of the Vacation Rental Industry on State and Local Economies

FOR USE BY THE VACATION RENTAL MANAGERS ASSOCIATION

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Measuring the Economic Impact of the Vacation Rental Industry on State and Local Economies

This white paper will help vacation rental managers educate themselves and state/local governments regarding the impact of the vacation rental industry on state and local economies. It will:

- Outline the many ways that vacation rentals generate economic impact;
- Identify the numbers that you need to calculate the economic impact on your community;
- Include average statistics for the nation as a whole that might be plugged in to roughly project the economic impact of vacation rentals on your community (good for those who have too little time or resources to find local statistics).

In addition to information from cited sources, this paper summarizes and restates a more lengthy report prepared by the author for the North Carolina Vacation Rental Managers Association (which can be used as a template for economic impact presentations).

The Industry's Economic Impact has three Unique Faces

Your economic impact presentations can be as detailed as those illustrated for NC, or they can be simple. But they should strive to drive home three points illustrated by this paper:

- **Multi-Industry Impact.** The economic impact of vacation rental is far greater than the industry's share of tourism dollars/taxes (Part I): unlike hotels and motels, the industry often plays a prominent role in resort economies by driving local construction, real estate, finance and insurance industries (Part II).
- **Subsidized Tourist Lodging.** Vacation rentals are subsidized by homeowners. This can facilitate tourism growth and enhance tax revenues in resort areas where large hotels are not economically sustainable (Part III). Vacation rentals are often the lodging infrastructure that develops an area's tourism
- **Differentiate Resort Forecasting Methodologies.** Your presentations should include enough statistics to generally establish the enormous dollar value of vacation rentals, and defend your estimates by also emphasizing that the industry's economic impact is not adequately profiled by the standard economic forecasting models today used by most States (Part IV).

The Vacation Rental Industry

VRMA sponsored a 2008 survey of the vacation rental market by PhoCusWright, one of the travel industry's prominent research authorities. That survey concludes that the vacation rental market was a \$24 billion industry in 2007, generating revenue equaling more than one fifth of all hotel room revenue and 8% of the total US travel market. In resort areas, vacation rentals actually tend to be responsible for a much higher share of revenues and can far exceed the revenue generated by hotels.

Inventory consists of privately owned vacation homes, and ranges from one-bedroom condominiums that rent for \$250 per weekend to luxury 10-bedroom homes costing more than \$15,000 per week. Unique advantages include kitchens that reduce meal costs for longer stays, privacy, and lower per-person rents. In communities with shorter tourist seasons,

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vacation rental homes can supply most of a resort community’s lodging infrastructure (as noted, large hotels require higher occupancy rates to be economically viable).

Vacation rentals tend to be targets for travelers’ “longest pleasure trip” of the year. They attract an average travel party size of 6 or more, compared to the average 2.3 commonly reflected in TravelScope statistics for state tourism. While most visible as part of a lodging industry that includes hotels, motels, resorts, timeshares, bed & breakfasts, campgrounds, and RV parks, the industry’s true economic contribution spills beyond its tourism revenues to its role as a real estate investment that draws out-of-state money to local real estate, construction, finance and insurance industries. Properly understood, and nurtured, the industry can be harnessed to expand state and local economies.

2007 US Lodging Profile. According to the PhoCusWright study, the industry includes:

- 1.3 million rental homes (including unmanaged homes);
- 5000 management companies representing 550,000 units;
- 21.5 million adult rental guests spending \$1300 per rental;
- 6 nights average stay;
- Average daily rate of \$215
- Revenue per unit exceeding \$19,000

The following table shows one estimate of the 2004 impact of vacation rentals on North Carolina. It illustrates the type of statistics you might collect and the potential importance of each category. For regional numbers, allocate a share of state revenues.

Table 1: Economic Footprint of the Vacation Rental Industry (Summary)

(\$mil)	Industry	(\$mil)	Assets
\$1,486	Real estate sales	\$9,659	Value of real estate
\$81	Real estate sales commissions	\$91	Local tax revenue (from tourism)
\$1,658	Mortgage financing	\$39	Property tax revenue
\$93	Insurance premiums	\$104	State tax revenue from tourism
\$582	New construction	JOBS	
\$1,194	Direct Construction impact	16,313	Construction jobs (direct)
\$1,961	Direct tourism expenditures	30,945	Tourism Jobs (direct)
\$2,609	Indirect tourism impact	15,027	Tourism Jobs (indirect & induced)

Identifying Your Report’s Limitations & Assumptions

There is no central source of data for regional statistics. The economic projections used States by for economic planning commonly do not capture the full impact of vacation rentals, which are not fully visible or well understood. To blunt criticism from opponents, it is desirable to acknowledge that your numbers are educated estimates and lay out the assumptions upon which your report is based. You may want to use language similar to that from the North Carolina study.

“Scope This report offers a preliminary estimate of the vacation rental industry’s influence on North Carolina’s economy. The study also makes a first attempt at mapping the flow of the industry’s economic impact beyond the travel industry to its prominent role in resort area construction, real estate, insurance and finance industries. “

Limitations of your Study Sample language: “The report is based upon a survey commissioned by the NC Vacation Rental Managers Association (NCVRMA) that identifies the number of NC vacation rental managers, their location by county, and the number of

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rental homes managed by each company. The underlying survey did not elicit revenue, guest, reservation or financial statistics from surveyed companies. All economic projections are based instead on NC Department of Commerce reports, county tax databases, interviews, and educated assumptions regarding the amount of lodging revenue, reservations, nights, guests per stay, and length of stay generated by vacation rental homes. Many estimates are supplied by AIMS, a vacation rental industry consultant, based on its experience analyzing reservations data for individual property managers throughout NC and the nation. This report assumes that vacation rental homes in each county generate uniform lodging revenues, number of reservations, guests-per-stay and lengths-of-stay, whereas such numbers will actually vary by company and region. While AIMS believes that this methodology yields a reasonable preliminary estimate of the industry's statewide economic impact, there is a need for a follow-up survey that provides more precise measurements and portrays regional differences. “

Financial and Operational Statistics – Assumptions Used. Sample language: “In estimating economic impact, AIMS assumed that NC’s vacation rental industry reflects the following industry averages, as explained in the endnotes.

- Number guests per reservation: 7 (based on company databases and interviews)
- Number of revenue nights: 105 (minimum for selected companies) ⁱ
- Length of stay per reservation: 4.6 days (based on interviews and some audits)
- Reservations per home: 22.826 (# revenue nights / 4.6 days-per-reservation)
- Number of bedrooms per home: 4 (sampled companies averaged 4.3)
- Turnover time between purchase and sale: 6.5 yearsⁱⁱ
- Annual rent per home: \$25,000 (reflected in NC occupancy tax)ⁱⁱⁱ
- Add-on fees per reservation: \$68.51 (reflected in NC sales tax)^{iv}
- Average value of vacation rental home: \$360,000^v
- Average cost of new construction: \$293,340^{vi}
- Land cost as percent of total home price: 33 %^{vii}
- Growth rate for NC vacation rental homes: 8% (from 2002)^{viii}”

Sources and References Sample: See resources described in the Appendix.

Impact on State Economies

You can estimate the impact of vacation rentals on tourism by allocating to the vacation rental industry a portion of your state tourism numbers for a recent period.

Part I - Estimating Travel Revenues

Subsidized Tourism Accommodations Rental income routinely falls short of homeowners’ mortgage payments, maintenance and management expenses by \$100 to \$2,000 per month. For every \$100 of negative monthly cash flow experienced by homeowners as a

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group, homeowners subsidize NC renters by roughly \$27.6 million per year.¹ To this figure, homeowners contribute an additional \$224 million per year by foregoing a return on their equity (ROE) until they cash in on any accumulated appreciation and equity by selling the property to a new homeowner.² In North Carolina for 2004, this resulted in a \$251-\$500 million annual subsidy, which makes vacation homes a good value to renters, who often pay less per person per night than they would for equivalent quality hotels. Homeowner subsidy allows rents to drop as low as may be required to satisfy demand for rentals. In some markets, vacation rental home rents are so low that they discourage entry by hotels (*i.e.*, hotels would not be able to get enough occupancy at the high rents they need to operate profitably). Vacation rentals supply lodging underlying tourism).

Industry Impact on Travel Spending. State tourism statistics will disclose how much lodging expenditures were made in your state or area during a recent year. You simply need to allocate a share of these dollars to vacation rentals (realizing that this will understate the impact of vacation rentals because it focuses only on tourism and excludes any impact on construction, finance, insurance, real estate sales, etc.). In measuring travel expenditures, the Travel Economic Impact Model (TEIM) used by some states may include certain capital costs of spending nights in the traveler's own vacation home ("imputed rent"). Look to footnotes to determine this. Where included, these figures capture rents paid for use of vacation homes. In the case of North Carolina, these were reflected in NC's occupancy tax). These state revenue figures also include "add-on" charges that amount to "effective" rent subject to sales tax. It was estimated that NC's vacation rental industry generated \$575 million, or 26%, of NC's lodging expenditures. If vacation rentals were allocated the same percentage of NC's \$12 billion direct travel expenditures, the vacation rental industry's share of travel spending would amount to a very healthy \$3.1 billion.³

Adjusted Estimates. Vacation homes may (or may not) consume a larger portion of a traveler's budget than do hotels and motels. To conservatively adjust for this possibility, the vacation rental industry's share of NC travel spending was reduced by 37% to \$1.96 billion. As set forth in Table 6, this was calculated by allocating to the vacation rental industry its 26% share of lodging revenues but by calculating its impact on the other five segments of the travel industry based on vacation rentals' share of travel days (days spent by travelers in NC), modified upward for retail trade expenditures as explained in the notes to Table 6.

¹ \$27.6 million negative cash flow per year = \$100 per month x 12 months x 23,000 homes

² \$224 million ROE = \$9.6 billion in real estate inventory (see Table 10) x 20% down payment = a \$1.9 billion investment, for which homeowners would be entitled to expect \$224 million return on equity based on the 11.6% return on equity being experienced by the hotel industry (Yahoo@Finance, <http://biz.yahoo.com/ic/hotels.html>, June 27, 2004).

³ The reasonableness of allocating a 26% share of NC's 2002 travel expenditures to the vacation rental industry should be measured against NC Department of Commerce reports. Using TIA Travelscope data for a NC Travel Industry Update, the NC Department of Commerce reported that, for 2002, 66% of NC's 44 million travelers stayed one or more nights and that 39% of these stayed in private homes. This means that private homes accommodated 25.74% of NC's travelers (66% x 39% = 25.74%). The vacation rental industry claims virtually all of the private home stays identified by the TravelScope reports, whereas rental homes should be just a portion of the state's vacation homes (NC's forecasting models assign a rent value to stays in private homes as described above in *Industry Impact on NC Travel Spending*). If AIMS' estimates are correct, the TravelScope data understates the number of vacation homes in North Carolina. Arguably, the surveys underlying the TravelScope data are not designed to accurately measure travelers' lodging choices in resort communities having unusually high concentrations of rental homes.

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Table 6: Adjusted Estimate of NC Travel Spending via the Vacation Rental Industry

2002 Travel Component	NC Travel Total ^a	Vacation Rentals	% Allocated
Lodging	2,230,400,000	575,000,000	25.8%
Public Transportation	1,463,400,000	202,610,786	13.8% ^b
Auto Transportation	1,685,400,000	233,347,150	13.8% ^b
Food Service	4,057,700,000	561,797,039	13.8% ^b
Entertainment & Recreation	1,187,000,000	164,342,629	13.8% ^b
General Retail Trade	1,362,500,000	224,610,971	16.5% ^c
Total:	11,986,400,000	1,961,708,575	16.4%

^a Source: NC Department of Commerce travel statistics
^b 13.8% equates to the vacation rental industry's 17.3% estimated share of total NC 2002 travel days, reduced by 20% to conservatively reflect a possibility that travelers spend less per day on longer trips, calculated as follows: vacation rental industry's share of NC travel days = 16,905,000 travel days (3,675,000 travelers x 4.6 day average stay) divided by NC's 98,680,000 travel days (44 million travelers in 2002 x 2.2 day average stay) or 17.3%. NC's 44 million travelers and 2.2-day stay figures are from NC Department of Commerce travel impact reports for 2002. Vacation rental industry's 3.675 million travelers = 23000 homes x 22.8 reservations per home x 7 guests per stay (p.4, *Financial and Operational Statistics – Assumptions Used*)
^c 16.4% = 13.845% from note b plus 2.64% to recapture the "effective" rent (add-on fees discussed in endnote iv below) that is subject to NC sales tax (2.64% of General Retail Trade = \$35,970,000, or \$68.51 of add-on fees per reservation x 23,000 homes x 22.826 reservation per home). Reservations per home are from p. 4, *Financial and Operational Statistic – Assumptions Used*

If you should create any estimates such as the foregoing, you can partially validate them by doing a "sanity test" whereby you compare your projections for vacation rentals to those commonly reported for your State statistics for tourism and travel. For example, the following paragraph and table did a sanity test for the NC study.

"The \$1.9 billion in travel expenditures projected for this industry by Table 6 is conservative. This is reflected by Table 7. Travelers staying in vacation rental homes would spend 5% less money per 2.2-day trip than reported by the North Carolina Department of Commerce (18% less for non-lodging expenditures). Vacation rental home guests would spend only \$255.29 for a 2.2-day trip compared to the \$269.96 per trip spent by average NC travelers. Table 6 adjusts the NC Department of Commerce travel expenditures so that vacation rental homes cost more (\$74.83 vs. \$50.23 per-trip per-person) and travelers using vacation rental homes make lower-than-normal expenditures for the remaining five segments of NC's travel industry (\$180.46 vs. \$219.73 per trip). Again, the projected impact of vacation rentals is intended to be conservative. A future survey may well reveal that the per-trip cost of vacation rental lodging is actually less, not greater, than the NC averages, and that the industry's impact on NC's travel industry is greater than the \$1.9 billion projected by Table 6."

Table 7: Travel Spending by Vacation Rental Guests vs. NC Averages

2002 Travel Component	NC Total Travel Expenditures ¹	\$ Spent Per 2.2 Day Trip ²	Vacation Rental Travel Expenditures ³	\$ Spent Per 4.6 Day Trip ⁴	\$ Spent Per 2.2 Day Trip ⁵
Number of Travelers	44,000,000		3,675,000		
Lodging	2,230,400,000	\$50.23	575,000,000	\$156.46	\$74.83
Public Transportation	1,463,400,000	\$32.96	202,610,786	\$55.13	\$26.37
Auto Transportation	1,685,400,000	\$37.96	233,347,150	\$63.50	\$30.37
Food Service	4,057,700,000	\$91.39	561,797,039	\$152.87	\$73.11
Entertainment & Recreation	1,187,000,000	\$26.73	164,342,629	\$44.72	\$21.39
General Retail Trade	1,362,500,000	\$30.69	224,610,971	\$61.12	\$29.23
Total:	11,986,400,000	\$269.96⁶	1,961,708,575	\$533.80	\$255.29
Non-lodging expenditures		\$219.73		\$377.34	\$180.46

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- ¹ NC Department of Commerce Travel Reports for 2002
² Travel expenditures divided by number of travelers
³ Source: Table 6
⁴ Vacation Rental Travel Expenditures divided by number of vacation rental travelers (spent over 4.6 days)
⁵ \$ Spent Per 4.6 Day Trip divided by 4.6, multiplied by 2.2
⁶ The NC Department of Commerce reports that 2002 travel expenditures were \$316 per household, which would appear consistent with Table 6's per-person expenditure of \$269.96: \$12 billion total expenditures / \$316 per household = maximum 37,872,919 households. NC's 44 million travelers / 37,872,919 households = 1.16 persons per household. \$316 household expenditure / 1.16 persons per household = \$272 per person per trip (exceeds \$269.96 due to rounding).

Total Impact, Applying Economic Multipliers. Economists recognize that these direct expenditures result in a number of indirect expenditures, as would occur when a restaurant buys food or pays employees who make purchases.

The only challenge is determining what economic multiplier to use. If you can't afford to hire an economist or professional, you can Google your state's recent economic forecasts and search for a number used by one or more prominent economists (often in your State's university system). Or you can find multipliers used by similar states and adopt the lower or most conservative number to maintain credibility.

The following text, table and footnote demonstrates how this was done for NC (here a more aggressive multiplier of 2.33 was used, based on a recent calculation by a NC university).

“The industry's direct travel spending of \$1.9 billion would result in a total economic impact on the state's economy of \$4.5 billion, after applying the economic multiplier of 2.33.⁴”

Table 8: Impact of Vacation Rentals on NC Economy - 2002

	Direct Impact	Indirect & Induced	Total Impact
Expenditures	1,961,708,575 ^a	2,609,072,405	4,570,780,980 ^b
Payroll generated ^c	637,555,287	309,596,847	947,152,134
Jobs generated	30,945 ^d	15,027 ^e	45,973
Tax revenue	377,209,417		
Local	91,646,363		
State	104,753,534		
Federal	180,809,520		

- ^a Source: Table 6
^b Total Impact = Direct Impact x 2.33 output multiplier (see footnote 4)
^c Payroll generated = Direct Impact expenditures x payroll multiplier of 0.325 (See Note, below)
^d Jobs generated = 15.78 jobs per million dollars of direct impact expenditures (See Note, below)
^e Every directly generated job induced or indirectly supported another 0.4856 jobs (Note, below).
^f Tax = direct impact expenditures x 4.67176% (local taxes), 5.33991% (state taxes) and 9% (Federal taxes) (See Note, below)
 NOTE: Economic multipliers approximate those reflected in NC Department of Commerce travel reports for 2002, except as described in note b, above.

⁴ According to a recent study by Eastern Carolina University regarding the impact of early school start dates, every “new” dollar expended on tourism will increase income by between \$2 and \$4, and the factor of \$2.33 is cited as being most reflective of the statewide economy. While this is higher than the 1.62 multiplier used by Maryland in 2000, it is adopted here because it applies directly to NC tourism, has been constructed by a credible NC source, and reflects the most recent known calculation on the subject. *Early School Start Dates In North Carolina And Its Effect On North Carolina's Hospitality And Tourism Industry*, James A. Chandler, David Edgell, Sr., Department of Nutrition and Hospitality Management, East Carolina University, April 2004,

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Travel-Generated Payroll. Travel-generated payroll is the wage and salary income paid to employees directly serving the traveler within the vacation rental industry, as well as in the public transportation, auto transportation, foodservice, retail, and entertainment and recreation sectors. Wages and salaries paid by state travel-related firms and directly attributable to tourists lodging are widely reported by the States. You need only allocate a share of this to vacation rentals using the same ratios used for your State's tourism dollars. In the case of NC, the vacation rental industry contributed more than \$637 million during 2002, or 16% of the State's total payroll from NC travel. On average, every dollar spent by visitors staying in vacation rental homes directly generates 33 cents in wage and salary income for NC residents. The total impact of direct, indirect and induced payroll approached \$1 billion.

Travel-Generated Employment. A wide variety of multi-level jobs are supported by travel and tourism. These include executive and managerial positions, as well as service-oriented occupations. You should look at your State's economic reports on tourism to get statistics you can use by allocating a share of the State's total revenues. For example, for NC, this method was used to conclude that, during 2002, domestic travelers staying in vacation rental homes generated 31,000 jobs. Every 100 jobs induced or indirectly supported another 48 jobs, resulting in a total of almost 46,000 jobs in North Carolina.

Travel-Generated Tax Revenue. Travel generated tax revenue is a significant economic benefit, as governments use these funds to support the travel infrastructure and a variety of public programs. You can easily determine the total dollar amount of each type of tax revenue collected by your local governments. For example, North Carolina received \$91 million in sales and property tax revenue. The State tourism reports showed that each travel dollar produced over 4.6 cents for local tax coffers. The State tourism reports also showed that domestic traveler spending in NC generated \$104 million in tax revenue for the state treasury through state sales and excise taxes, and taxes on corporate and personal income. And that, on average, each travel dollar produced 5.3 cents in state tax receipts. Using these numbers, it was reasonable to calculate that the vacation rental industry generated \$180 million for federal, state and local governments, or 9 cents for every dollar spent. These tax revenue multipliers were based on prior NC tourism studies and did not include tax revenues related to real estate construction and transfer: (1) real estate transfer tax, (2) building permits, or (3) planning and development fees. So there is reason to question whether these travel related tax figures fully reflect the contribution by vacation rental homes to sales tax, ABC revenues, and Ad Valorem tax. As noted at Table 6 and endnote iv, a significant share of rent-related charges paid by vacation home renters is subject to sales tax.

Part II - Calculating the Impact on Other Industries

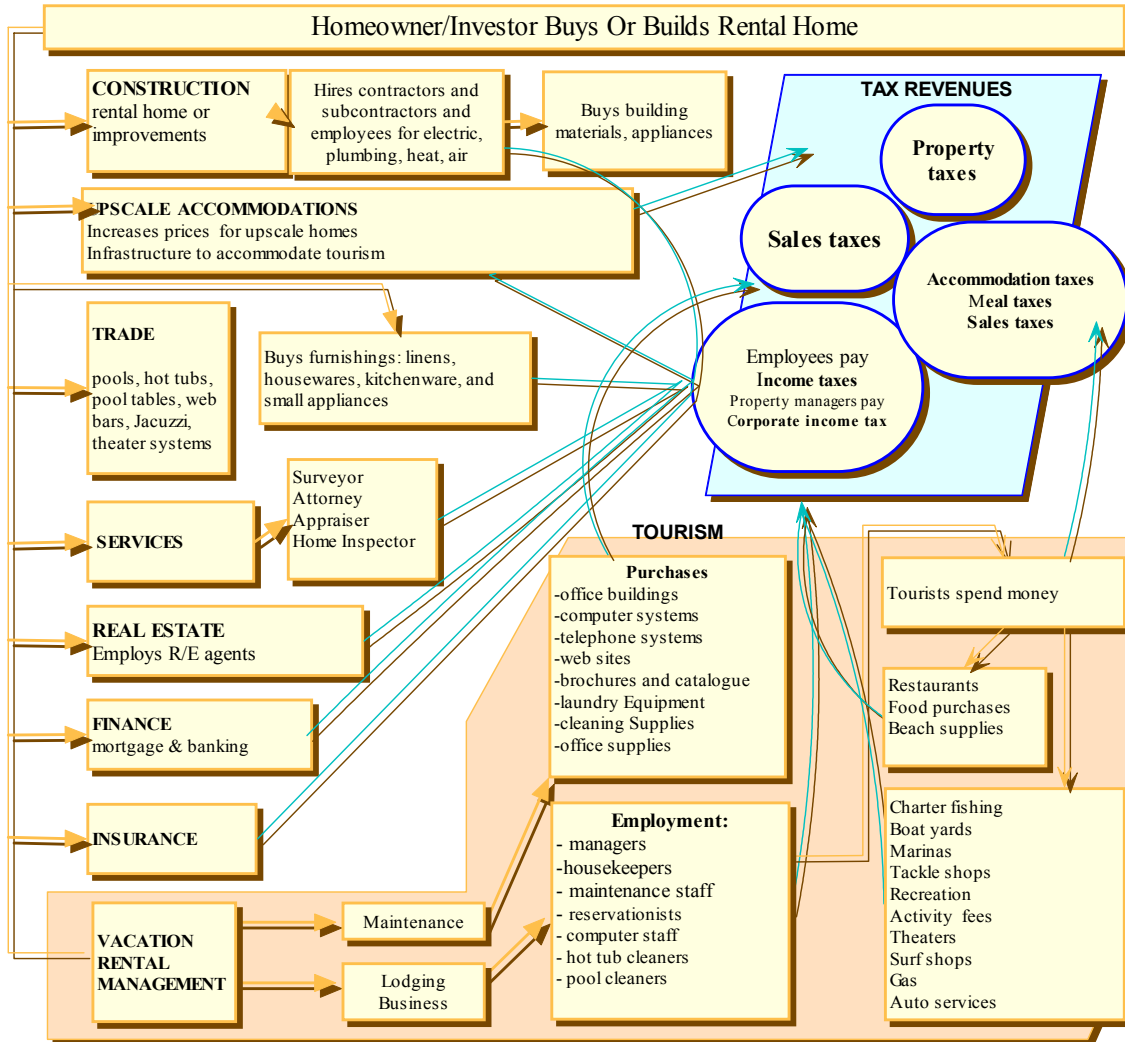
The industry attracts tourism dollars in the same manner as hotel lodging, but its economic footprint stretches further. The vacation rental industry also contributes to the construction, real estate, insurance, and finance industries (Table 9). Again using NC as an example, Tables 10-16 demonstrate how it is possible to project the potential economic impact on those industries.

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Table 9 – Impacting a Wide Range of Industries

The Vacation Rental Industry Impacts A Wide Range of NC Industries



Vacation Rentals Generate Billions in Annual Real Estate Sales

Multiple Listing Service statistics suggest that, over the long term, most resort area homeowners/investors sell every five to eight years. Interviews with mortgage companies specializing in resort markets indicate that the fast pace of land appreciation during the most recent boom years reduced the holding period to five years. In 2009, real estate sales are significantly depressed, of course. In preparing your own estimates, you must make some estimate as to how long homes can be expected to be held. Then calculate the impact as follows, substituting local sources.

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Table 10 assumes a 6.5-year average holding period. It concludes, for NC as of 2004, 15.3% of the industry's \$9.6 billion assets, or \$1.5 billion of real estate, comes on the market each year, generating \$81.7 million in annual real estate commissions as well as fees for brokers, attorneys, appraisers, insurance companies, and financial institutions.

Table 10 - Vacation Rentals Generate \$81 Million in Real Estate Commissions

Impact of Vacation Rental Home Sales On the Real Estate Industry – 2004						
Estimated Value of Vacation Annual Rental Home Sales						
County	# Rental Units	Value Of Real Estate*	Annual Unit Turnover (Number)**	Value of 2004 Sales	Com-mission Rate***	Commissions Paid
Allegheny	17	6,298,560	2.69	969,009	5.5%	53,296
Ashe	185	66,764,736	28.53	10,271,498	5.5%	564,932
Avery	1,008	362,797,056	155.04	55,814,932	5.5%	3,069,821
Brunswick	4,289	1,543,987,008	659.82	237,536,463	5.5%	13,064,505
Buncombe	41	14,696,640	6.28	2,261,022	5.5%	124,356
Carteret	3,104	1,117,364,544	477.51	171,902,238	5.5%	9,454,623
Currituck	2,968	1,068,655,680	456.69	164,408,566	5.5%	9,042,471
Dare	9,764	3,515,016,384	1,502.14	540,771,751	5.5%	29,742,446
Graham	17	6,298,560	2.69	969,009	5.5%	53,296
Halifax	29	10,497,600	4.49	1,615,015	5.5%	88,826
Haywood	290	104,556,096	44.68	16,085,553	5.5%	884,705
Iredell	29	10,497,600	4.49	1,615,015	5.5%	88,826
Jackson	362	130,170,240	55.63	20,026,191	5.5%	1,101,440
Macon	127	45,769,536	19.56	7,041,467	5.5%	387,281
New Hanover	1,339	482,049,792	206.00	74,161,506	5.5%	4,078,883
Onslow	313	112,534,272	48.09	17,312,965	5.5%	952,213
Pamlico	23	8,398,080	3.59	1,292,012	5.5%	71,061
Pender	1,059	381,272,832	162.94	58,657,359	5.5%	3,226,155
Polk	17	6,298,560	2.69	969,009	5.5%	53,296
Rutherford	321	115,473,600	49.35	17,765,169	5.5%	977,084
Swain	58	20,995,200	8.97	3,230,031	5.5%	177,652
Transylvania	132	47,449,152	20.28	7,299,870	5.5%	401,493
Watauga	1,255	451,816,704	193.08	69,510,262	5.5%	3,823,064
Wilkes	47	16,796,160	7.18	2,584,025	5.5%	142,121
Yancey	35	12,597,120	5.38	1,938,018	5.5%	106,591
Totals	26,831	\$ 9,659,051,712		\$ 1,486,007,956		\$ 81,730,438
* Value = # Rental Units x Assumed Average Value per Home of \$360,000						
** Turnover = 15.3846 homes per 100 (assumes homes are sold every 6.5 years)						
*** Commission Rate on sales assumed to be between 5-6%						

Vacation Rentals Generate Millions in New Construction

Until the recent housing and finance crises, vacation rental homes are estimated to have grown at 8% since 2002 (see endnote viii). If you can estimate the number of vacation rental homes in your market, you can then calculate any dollar impact of new construction. For example, in North Carolina, this translated to 1,987 new units for 2004. This added an estimated \$582 million of new property and \$2.3 million in new property tax revenues.

Table 11 – Vacation Rentals Generate an Estimated \$582 Million in New Construction

Source: North Carolina Association of County Commissioners Budget and Tax Survey – 2002-2003							Projected Vacation Rental Home Construction For 2004 ^b (Excluding land cost)			
County	2003 Sales/ Assess Ratio	2003-04 Assessed Valuation	Adj. Assess. Value ^a	Tax Rate Per \$100	Effective Tax Rate Per \$100	Tax Levy (100% Coll)	2003 Vacation Rental Units (2002 Units grown 8%)	2004 Newly Con- structed Vacation Rental Units	2004 Value of Newly Con- structed Vacation Rentals (Avg cost of \$293,340) ^c	New Property Tax Revenues From Vacation Rental Units ^d
Allegheny	0.7377	1,010,000,000	\$1,369,120,239	0.5500	\$0.4057	\$5,555,000	16	1	380,169	1,542
Ashe	0.6800	1,820,000,000	\$2,676,470,588	0.5800	\$0.3944	\$10,556,000	172	14	4,029,792	15,893
Avery	0.8235	2,349,627,065	\$2,853,220,480	0.5300	\$0.4365	\$12,453,023	933	75	21,897,736	95,574
Brunswick	1.0000	12,899,000,000	\$12,899,000,000	0.5200	\$0.5200	\$67,074,800	3,971	318	93,192,101	484,599
Buncombe	0.9103	17,700,000,000	\$19,444,139,295	0.5900	\$0.5371	\$104,430,000	38	3	887,061	4,764
Carteret	0.9245	7,618,716,693	\$8,240,905,022	0.4200	\$0.3883	\$31,998,610	2,874	230	67,441,986	261,870
Currituck	0.6630	2,457,244,539	\$3,706,251,190	0.6200	\$0.4111	\$15,234,916	2,749	220	64,502,012	265,142
Dare	0.5166	5,750,000,000	\$11,130,468,448	0.5400	\$0.2790	\$31,050,000	9,041	723	212,159,663	591,849
Graham	0.8155	544,492,571	\$667,679,425	0.5900	\$0.4811	\$3,212,506	16	1	380,169	1,829
Halifax	0.8685	2,645,918,687	\$3,046,538,500	0.8650	\$0.7513	\$22,887,197	27	2	633,615	4,760
Haywood	0.9474	4,649,408,220	\$4,907,545,092	0.6100	\$0.5779	\$28,361,390	269	22	6,310,806	36,471
Iredell	1.0000	13,146,752,109	\$13,146,752,109	0.4350	\$0.4350	\$57,188,372	27	2	633,615	2,756
Jackson	0.7833	3,727,982,515	\$4,759,329,140	0.4800	\$0.3760	\$17,894,316	335	27	7,856,827	29,540
Macon	1.0000	4,848,476,303	\$4,848,476,303	0.3700	\$0.3700	\$17,939,362	118	9	2,762,562	10,221
New Hanover	0.9287	17,320,000,000	\$18,649,725,423	0.6800	\$0.6315	\$117,776,000	1,240	99	29,095,603	183,743
Onslow	0.9301	5,865,523,805	\$6,306,336,743	0.6700	\$0.6232	\$39,299,009	289	23	6,792,353	42,328
Pamlico	0.8426	875,392,441	\$1,038,918,159	0.7445	\$0.6273	\$6,517,297	22	2	506,892	3,180
Pender	1.0000	3,200,000,000	\$3,200,000,000	0.5900	\$0.5900	\$18,880,000	981	78	23,012,899	135,776
Polk	0.8376	1,627,587,033	\$1,943,155,484	0.5876	\$0.4922	\$9,563,701	16	1	380,169	1,871
Rutherford	0.8962	3,846,154,340	\$4,291,625,017	0.6200	\$0.5556	\$23,846,157	297	24	6,969,766	38,727
Swain	0.6608	510,990,904	\$773,291,320	0.5500	\$0.3634	\$2,810,450	54	4	1,267,230	4,606
Transylvania	0.9257	3,366,000,000	\$3,636,167,225	0.4800	\$0.4443	\$16,156,800	122	10	2,863,940	12,726
Watauga	0.8733	5,240,414,300	\$6,000,703,424	0.3500	\$0.3057	\$18,341,450	1,162	93	27,270,792	83,355
Wilkes	0.9687	4,393,666,084	\$4,535,631,345	0.6100	\$0.5909	\$26,801,363	43	3	1,013,784	5,991
Yancey	0.8292	1,369,336,898	\$1,651,395,198	0.5000	\$0.4146	\$6,846,684	32	3	760,338	3,152
			\$145,722,845,169.00				24,844	1,987	\$582,624,709	\$2,322,267

2002-03 figures reflect budget amounts as of July 1, 2002 and are county responses to 2002-2003 survey. These are not audited figures.
^a Sales/assessment ratio applied to entire valuation base as gross measure of market value
^b Number of rental units are based on 2002 NC VRMA survey, grown 8% (endnote viii)
^c Average cost of new construction per endnote vi
^d Tax = 2004 estimated market value divided by 100, multiplied by Effective Tax Rate Per \$100

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When multipliers are considered, this could directly generate 16,313 jobs and add \$1.1 billion to NC's economy. Calculating the indirect and induced impact would add considerably more.

Table 12 - Estimated Economic Impact of Construction

Estimated Economic Impact of Construction - 2004	
Construction expenditures ^a	\$582,621,709
Output Multiplier ^b	2.05
Impact	\$1,194,374,503
Earnings Multiplier ^b	0.61
Payroll generated	726,060,261
Job multiplier ^b	28
Jobs generated ^c	16,313
^a Source: Table 11 ^b Source: to estimate the impact of new construction on NC's economy, AIMS reviewed multipliers applied by the Shimberg Center (below) to Florida, which has the nation's largest vacation rental industry, and those applied in the mid 1990s to the Toledo-Bend lake resort market and the surrounding areas of Texas and Louisiana: <i>FINAL – Residential and Marina Dev. Overview – South Toledo Bend</i> , by Economics Research Associates ("ERA"). <i>The Impact of Real Estate on the Florida Economy</i> , published by the Shimberg Center for Affordable housing (updated to reflect 2002 data), www.shimberg.ufl.edu, reports that the RIMS II total output multiplier for the new construction industry in Florida is 2.1207, the earnings multiplier is 0.7134, and the total employment multiplier is 37.6. The ERA analysis estimated second home residential housing construction impacts by using a 2.05 output multiplier, a .6079 earnings multiplier and an employment multiplier of 24.1. AIMS applied the lower output and earnings multipliers, and estimated the employment multiplier at 28. ^c Jobs generated = construction expenditures / \$1,000,000 x job multiple (28).	

Rental Homes Generate Millions in Annual Insurance Premiums

A \$250,000 rental home can incur \$3,473 in insurance premiums (Table 14) (for your area, check with local insurance brokers who actively monitor the industry). For NC, this resulted in more than \$93 million in annual insurance premiums, and \$6.5 million in insurance commissions.

Table 13 – Estimated Impact on the Insurance Industry

Estimated Impact of Vacation Rental Homes On The Insurance Industry – 2004 Projected Value of Annual Vacation Rental Homes Sales					
County	# Rental Units Projected for 2004	Cost Of Insurance*	Value of 2004 Insurance Premiums	Commission on Premium**	Commissions Paid
Allegheny	17	3,473	60,764	7.0%	4,253
Ashe	185	3,473	644,094	7.0%	45,087
Avery	1,008	3,473	3,499,984	7.0%	244,999
Brunswick	4,289	3,473	14,895,186	7.0%	1,042,663
Buncombe	41	3,473	141,782	7.0%	9,925
Carteret	3,104	3,473	10,779,464	7.0%	754,562
Currituck	2,968	3,473	10,309,559	7.0%	721,669
Dare	9,764	3,473	33,910,144	7.0%	2,373,710
Graham	17	3,473	60,764	7.0%	4,253
Halifax	29	3,473	101,273	7.0%	7,089
Haywood	290	3,473	1,008,676	7.0%	70,607
Iredell	29	3,473	101,273	7.0%	7,089
Jackson	362	3,473	1,255,781	7.0%	87,905
Macon	127	3,473	441,549	7.0%	30,908
New Hanover	1,339	3,473	4,650,441	7.0%	325,531
Onslow	313	3,473	1,085,643	7.0%	75,995
Pamlico	23	3,473	81,018	7.0%	5,671
Pender	1,059	3,473	3,678,224	7.0%	257,476
Polk	17	3,473	60,764	7.0%	4,253
Rutherford	321	3,473	1,113,999	7.0%	77,980
Swain	58	3,473	202,545	7.0%	14,178
Transylvania	132	3,473	457,753	7.0%	32,043
Watauga	1,255	3,473	4,358,776	7.0%	305,114
Wilkes	47	3,473	162,036	7.0%	11,343
Yancey	35	3,473	121,527	7.0%	8,507
Totals	26,831		\$93,183,018		\$6,522,811
* Value = Average cost of insurance is based on Table 14					
** Commission rate on sales is conservatively calculated at 7%					

Measuring Vacation Rental Industry Impact

Table 14 – Insurance Cost Profile for Vacation Rental Homes

2004 Insurance Cost Profile For NC Vacation Rental Homes^a		
Dwelling policy ^b	Low	High
Home value: \$250,000		
Contents value: \$ 25,000		
Essential perils: \$ 500		
Wind deductible: \$ 2,000		
Annual premium	\$1,737	\$2,376
Flood policy (standard)		
Elevated dwelling		
Small enclosure w/ venting		
Deductible \$ 500		
Annual premium	\$453	\$1,500
Crime Policy (theft, not mysterious disappearance)		
Cash value (not replacement) ^c		
\$1,000 coverage premium	\$65	
\$10,000 coverage premium		\$120
Liability		
\$1,000,000 coverage		
Premium w/o pool	\$250	
Premium with pool (\$2mil aggregate)		\$445
Annual Cost	\$2,505	\$4,441
Average Cost	\$3,473	
^a Courtesy of J Fletcher Willey Agency, Inc., J Fletcher Willey, President, PO Box 848, 103 W. Wood Hill Dr., Nags Head, NC 27959, (252) 480-4600 ^b Premiums can more than double as the protection class increases. ^c Any change in coverage or deductibles can change the premium amount.		

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Finance and Mortgage Generate Billions Annually

It is difficult to estimate the impact of vacation rentals on the banking and finance industry because the finance industry does not coordinate to maintain records.

While we can estimate the volume of real estate transfers and new construction, it is difficult to determine how much of this is financed. Homeowners rely heavily on financing to (a) buy existing homes; (b) add improvements to existing homes; and (c) construct new homes.

However, homeowners may finance these with cash, or through financing transactions that do not impact the local economy. Many homeowners buy with cash, using savings, money earned from asset sales, or inheritances. Others refinance their primary mortgage, pulling equity from primaries to buy second homes; some use out-of-state banks.

Interview your resort area mortgage brokers to get estimates of the percentage of all sales that are financed. For NC, approximately 70% of all sales were financed (30% were cash from sale or refinancing occurring outside N.C). Make assumptions about how often real estate turns over (again by interviewing prominent real estate and mortgage brokers). For NC, the following chart assumed that rental properties turn over every 6.5 years, rather than the 5-year term that had been experienced during the recent boom market.⁵

Real estate financing affects appraisers, attorneys, surveyors, banks and mortgage companies.

Table 15 –Impact on Finance and Mortgage Industries

Estimated Impact on Finance and Mortgage Industries - 2004	
\$1,486,007,956 ^a	Sales of existing homes
	\$444,455 cost of new home ^b
	1,987 new constructions ^c
\$ 888,336,179	Total value of new construction
\$2,369,344,134	Value of real estate sold
70% ^d	% requiring financing (vs. cash)
\$1,658,540,894	Value of real estate to be financed
80% ^e	Mortgage, after down payment
\$1,326,832,715	Value of real estate financed
^a Source: Table 10 ^b \$293,340 cost of new construction (endnote. vi) increased by land value equal to 33% of the total value of the property (endnote vii) ^c Source: Table 11 ^d Interviews with Dare County mortgage specialists ^e Conservatively assumes 20% down payment (10% is possible today)	

Vacation Rentals Can Dominate Resort Area Property Tax Revenues

You can project the value of inventory in your area if you know the approximate number of rental units and talk to local brokers or check the MLS to estimate average sales. Using this approach it was estimated that the NC vacation rental industry managed \$9 billion in assets

⁵ The chart does not attempt to capture the significant volume of NC home equity loans and refinancing that occurs during cycles of low interest rates for the purpose of reducing a buyer's financing costs or liquidating a portion of a buyer's equity for uses that do not involve North Carolina real estate.

Measuring Vacation Rental Industry Impact

during 2003, and generated more than \$39 million in property tax revenues. The industry attracts non-resident investors who compete for residential resort properties, driving up property values and property tax revenues. Unlike property owned by local residents, most vacation rental homes do not house families on a year-round basis. An eight-bedroom home does not come with 7 children who require schooling. Property tax revenues are not only higher in resort areas but bring fewer related public obligations.

Table 16 - Impact of Vacation Rentals on Property Tax Revenues

Source: North Carolina Association of County Commissioners Budget and Tax Survey – 2002-2003						Estimated Impact of Vacation Rentals - 2003		
County	2001 Sales/ Assess Ratio	2002-03 Assessed Valuation ^a	Tax Rate Per \$100	Effect- ive Tax Rate Per \$100	Tax Levy (100% Coll)	2002 Vacation Rental Units, grown 8% ^b	2003 value of Vacation Rental Units (Avg value of \$360,000) ^c	Property Tax Revenues From Vacation Rental Units ^d
Dare	0.6854	5,315,859,326	0.5400	0.3701	28,705,640	9,041	3,254,644,800	12,045,961
Brunswick	0.8122	10,500,000,000	0.5925	0.4812	62,212,500	3,971	1,429,617,600	6,879,727
Carteret	0.9404	7,355,576,695	0.4200	0.3950	30,893,422	2,874	1,034,596,800	4,086,326
Currituck	0.7970	2,340,038,723	0.6200	0.4941	14,508,240	2,749	989,496,000	4,889,496
New Hanover	0.9302	17,000,000,000	0.6900	0.6418	117,300,000	1,240	446,342,400	2,864,795
Watauga	0.9689	4,923,302,865	0.3700	0.3585	18,216,221	1,162	418,348,800	1,499,751
Pender	0.6450	2,421,304,000	0.6680	0.4309	16,174,311	981	353,030,400	1,521,067
Avery	1.0000	2,263,463,780	0.5300	0.5300	11,996,358	933	335,923,200	1,780,393
Jackson	0.8100	3,591,982,515	0.4800	0.3888	17,241,516	335	120,528,000	468,613
Rutherford	0.9690	3,767,500,000	0.6200	0.6008	23,358,500	297	106,920,000	642,354
Onslow	0.9722	5,767,946,307	0.6800	0.6611	39,222,035	289	104,198,400	688,851
Haywood	1.0000	4,200,317,869	0.6100	0.6100	25,621,939	269	96,811,200	590,548
Ashe	0.7100	1,770,000,000	0.5800	0.4118	10,266,000	172	61,819,200	254,571
Transylvania	0.9966	3,250,000,000	0.4600	0.4584	14,950,000	122	43,934,400	201,411
Macon	0.8385	3,751,475,000	0.4400	0.3689	16,506,490	118	42,379,200	156,354
Swain	0.6657	504,277,636	0.5500	0.3661	2,773,527	54	19,440,000	71,177
Wilkes	0.8442	3,862,139,924	0.6550	0.5530	25,297,017	43	15,552,000	85,995
Buncombe	0.9938	17,700,000,000	0.5900	0.5863	104,430,000	38	13,608,000	79,789
Yancey	0.8963	1,348,685,243	0.5000	0.4482	6,743,426	32	11,664,000	52,272
Halifax	0.8645	2,550,000,000	0.7850	0.6786	20,017,500	27	9,720,000	65,963
Iredell	0.8947	11,021,071,442	0.4700	0.4205	51,799,036	27	9,720,000	40,873
Pamlico	0.8501	856,402,286	0.7445	0.6329	6,375,915	22	7,776,000	49,214
Graham	1.0000	550,369,742	0.6000	0.6000	3,302,218	16	5,832,000	34,992
Polk	0.8934	1,577,671,442	0.5376	0.4803	8,481,562	16	5,832,000	28,011
Allegheny	0.7942	995,191,000	0.5500	0.4368	5,473,551	13	4,665,600	20,380
Other	86.8053	\$469,963,981,080			\$3,232,177,819			
Total	0.8901	\$588,153,365,875			\$3,908,571,191	24,840	8,942,400,000	39,098,886
2001-02 figures reflect budget amounts as of July 1, 2001 and are county responses to 2001-02 survey. 2001-02 figures are not audited numbers. ^a Sales/assessment ratio applied to entire valuation base as gross measure of market value. ^b See endnote viii ^c See endnote v ^d Tax = 2002 estimated market value divided by 100, multiplied by Effective Tax Rate Per \$100.								

Part III – Unique Tool for Economic Growth

For the nation as a whole, hotels and motels dominate the lodging industry. But hotels require high occupancy rates on a year-round basis (50% industry average, 80% or more for large hotels), and this cannot be achieved in resort areas with short rental seasons (the vacation rental industry averages 35% occupancy, according to the PhoCusWright survey). By contrast, the owners of vacation homes expect to subsidize rentals (*i.e.*, they expect mortgage and management costs to exceed rental revenue).

Table 17: Comparing Investor Profiles

Commercial Lodging vs. Vacation Rental Homes		
	Commercial Lodging Investor	Vacation home Investor
Investor motivation	Profits	Profits & life style benefits
ROI timing	Annual: operating profits	Long-term: upon sale of property
Operations mission	Profit and stock value increases	Mitigate mortgage costs
Source of profit	Renter of property	Sale of rental property
Mortgage payments	Renter/guest pays all	Guest pays part
Cash flow	Positive cash flow	Negative cash flow
Profit engine	Operations	Long-term appreciation
Source: George T. Volsky (Advanced Information & Mgt Systems) - 2004		

Tool for Growth. Communities often fail to understand the unique power that vacation rentals exert by providing the infrastructure to accommodate tourists even when rental seasons are too short to support hotels and motels.

- Vacation rentals can be harnessed to provide lodging infrastructure in resort markets where the underlying investment is unable to generate a return on investment.
- Rental rates are more demand driven than hotel rates and thus are a more flexible lodging option for communities that need to attract tourists who will not or cannot pay normal hotel rents. With no requirement that rents cover mortgages or produce a return on investment, vacation rentals can reduce rents to whatever price tourists are willing to pay (hotels are not commercially viable unless the demand for room rates is sufficient to cover building costs and generate a return on investment);
- Renters often view vacation rental homes as better values than other categories of commercial lodging, preferring the greater space, privacy, and eat-in options;
- Vacation rental homes can become resort destination attractions in their own right, offering private swimming pools, hot tubs, computers, on-line Internet service, fax, theater rooms, game rooms, pool tables, scenic views, gourmet kitchens, etc.

Variety of Inventory. Because each home is owned by a different investor and is built at different times, rental inventory ranges from old to new, and comes in a wide range of rental rates to accommodate the pocketbooks of all classes of vacationers. Older units tend to be smaller and less expensive, but they can be located on oceanfront or other premier locations.

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Luxury. Newer units tend to be larger and more expensive, often containing all the luxuries available in upscale hotels, plus kitchens that give renters the flexibility to extend their stay without incurring exorbitant restaurant bills. In addition to having most of the amenities available in luxury hotels, the larger vacation rental homes have enough space to accommodate family reunions, multiple families or small corporate retreats.

Investment Magnets. Outside resort areas, residential construction is driven by the pace of a community's economic growth and the median income of local residents. In resort communities, residential property that can be used for vacation rentals attracts large numbers of non-resident investors and tourists, inflating property values and property tax revenues.

Public Policy Disputes. Today, debates over community growth seldom include statistical analysis of how a property tax increase or restriction on vacation rentals will affect a resort's construction, real estate, finance and insurance industries, or the related tax revenues. A better understanding of the vacation rental industry will help community planners accelerate (or control) economic growth. It will also assist them in developing policy on topics that can be divisive within the resort community:

- Opposition to large rental homes and other high-density accommodations;
- Transformation of the traditional character or composition of neighborhoods;
- Concern over declining numbers of motel/hotel rooms;
- Opportunities for growing tourism where hotels are not economically sustainable;
- Distribution of tax burden among property owners, residents and tourists;
- The importance and availability of affordable housing;
- The economic importance of sustaining a seasonal workforce;
- Adequacy of public facilities and utility services.
- Tension between NC's consumer protection and tourism development goals.

Part IV – The Need for New Resort - Focused Economic Impact Models

This white paper demonstrates that the vacation rental industry has a wide economic footprint that extends far beyond the travel industry. While operated as lodging, vacation rentals are just one cog of a broader investment cycle. Most state and county economic forecasts are

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Measuring Vacation Rental Industry Impact

based upon two standard forecasting models⁶ that do not count real estate, construction, finance or insurance when measuring the effect of tourism, and therefore do not measure the full impact of vacation rentals. These models fail to give local and state planners a clear picture of the role played by this industry. Vacation rentals involve more guests-per-rental and longer stays-per-rental, but these attributes are often obscured because standard economic impact models lump vacation rentals in with hotels, motels, campgrounds, bed and breakfasts, time-shares and resort-owned properties. Economists and governments measure vacation rentals as an integrated component of the travel industry. As discussed in footnote 9, there is also reason to suspect that commonly used TravelScope surveys are not designed to accurately measure travelers' lodging choices in resort markets that have unusually high concentration of vacation rental homes. North Carolina is in need of a forecasting model that specializes in resort markets.

The Investment Cycle to Be Measured.

The vacation rentals industry's economic impact derives from distinct phases of an investment cycle:

- Phase 1. The investor contracts to buy residential property with the intent to put it into a rental program or self-manage. The buyer is often a non-resident, and he frequently bids up the median price of residential housing beyond the affordable level for the resort community's residents (under U.S. Department of Housing and Urban Development guidelines, an affordable median price is considered three times the median income in that county). This simultaneously drives up property tax revenue without a proportionate increase in the demand for schools and municipal services that would otherwise arise if the residential property housed full-time residents.
- Phase 2. Most buyers take out a mortgage. Early buyers spend money locally by constructing a home and furnishing it, often with luxury features that include pools, hot tubs, theater systems, pool tables, and upscale furnishings. The property closing generates local transfer taxes, and inspections fees, as well as fees for attorneys, finance companies, appraisers, real estate agents and surveyors.
- Phase 3. The buyer self-manages or hires a vacation rental company to manage the property and generate rental income. For five-to-eight-years, most buyers supplement the rental income out of their own pockets to pay mortgage, management fees, real estate taxes, insurance premiums and utilities. During this period, the investment has a working capital requirement resulting in negative cash flow. Periodically, hurricanes, floods or fire destroy property, triggering a return of the

⁶ The impact of tourism is measured by dollars generated in expenditures, earnings, jobs and tax revenues. These estimates are produced by use of two models. Almost all states calculate the impact of tourism by referring to the Travel Economic Impact Model (TEIM), which was developed by the U.S. Travel Data Center to provide annual estimates of the impact of the travel activity of U.S. residents on national, state and county economies in this country. The TEIM has the capability of estimating the economic impact of various types of travel, such as business and vacation, by transport mode and type of accommodations used. A second model has been developed in response to the growing need for regional impact analysis. The Regional Economic Analysis Division of the Bureau of Economic Analysis (BEA) developed the Regional Industrial Multiplier System (RIMS) in the mid-1970s. RIMS InputOutput Modeling System (RIMS II) is a major revision of RIMS. Virtually all analyses of NC tourism rely on some aspects of these models.

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buyer's insurance premiums to finance additional construction and repair. During this period, the buyer may expend money locally to refurbish or improve the residential property.

- Phase 4. The investor sells the property to realize any accumulated appreciation. The new buyer's purchase money may go partly to defray the original construction costs and partly to give the seller a return on his investment. During normal economic times, each sale may bid up the price of the residential property and increase the property tax base.

As long as this churn of real estate continues, it supports a large number of real estate agents, mortgage specialists, insurance jobs, appraisers, attorneys, and government services. This cycle also stimulates a steady stream of new construction and remodeling. As services and materials are purchased, the sellers use the money to buy products and services in their own right, creating indirect and induced employment that has an extended and important economic impact on the resort community.

Conclusion

State and civic leaders will be better poised to manage their communities by understanding the investment dynamics that tie vacation homes to a resort community's economic health.

The vacation rental industry is an economic engine that facilitates non-resident investment in resort communities and drives local real estate, finance, and insurance industries. During their 5-8 year investment cycle, the nonresident homeowner/investors experience negative cash flow. This has the effect of subsidizing the high-quality lodging infrastructure that is required to develop and sustain a community's tourism revenues. However, the underlying relationships between homeowners and the community can be fragile. Homeowner/investors have varying degrees of financial wherewithal. Every new rental restriction, tax increase, expense increase, and change in demand or supply can drive a stratum of these investors out of the market.

The vacation rental industry's economic power is poorly understood.

There is a pressing need for more research, as well as new forecasting models, to assist resort communities in measuring the benefits and needs of vacation rentals and their impact on community goals.

Appendix: Sources and References for the NC Projections

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Sue Reynolds, Carolina State Mortgage, Nags Head, NC, susan@bankersnc.com, regarding mortgages and finance
J Fletcher Willey Agency, Inc., PO Box 848, 103 W. Wood Hill Drive, Nags Head, NC, 27959 (252)-480-4600, regarding insurance.
Dare County Tax Office

Measuring Vacation Rental Industry Impact

Endnotes

ⁱ **Number of revenue nights: 105 (minimum for 7 audited Outer Banks companies).** This appears conservative. ResortQuest Int'l's Annual Report to Shareholders for 2002 reports 18,639 homes with a 51.3% occupancy, excluding homeowner nights equal to 14% of gross available nights. This equates to an average of 161 nights per home: $(100\% - 14\%) \times 51.5\% \times 365 \text{ days} = 161 \text{ days}$. <http://www.sec.gov/Archives/edgar/data/1057507/000095014403004264/g81646exv13.txt>. ResortQuest is the nation's largest property management corporation with 20,000 homes and condos under management in 52 resort locations.

ⁱⁱ **Turnover time between purchase and sale: 6.5 years.** Interviews with Dare County mortgage companies suggest that vacation rental homes historically turn over every 5 to 8 years, but that a hot real estate market has reduced this to five years. Preliminary analysis of Outer Banks Multiple Listing Service statistics reveals a volume of annual real estate sales consistent with a 5-6 year turnover period. This study used the midpoint between 5 and 8 years, or 6.5.

ⁱⁱⁱ **Annual rent per home: \$25,000 (reflected in NC occupancy tax).** Estimate based on AIMS analysis of lodging revenues earned by various NC rental managers during 2002: an upscale property manager generated average gross rents of \$47,000 per home in 2002; a mid-scale rental manager averaged \$24,000 and low-end inventory with short seasons may average \$12,000. Resortquest Int'l's 2002 annual report shows average gross lodging revenues for 18,600 mountain, beach, desert and Hawaii homes of \$21,400. Approximately 47% of NC's rental homes are in Dare and Currituck counties, where rentals tend to be high. See endnote i regarding ResortQuest.

^{iv} **Add-on fees per reservation: \$68.51 (reflected in NC sales tax).** Service or add-on fees (which do not include commission income from real estate sales) are important to management companies because they often account for a property manager's entire profit. Service fees distort economic impact studies because they are subject to sales tax rather than occupancy tax, understating the vacation rental industry's contribution to NC lodging revenues and overstating the average traveler's expenditures on NC retail sales. AIMS isolates add-on fees to reclaim \$36 million of "effective" rents from the retail sales and service segment (see Table 6, note c). For example, a guest might be charged \$1,096.74 for rent (generating NC occupancy tax) and two "add-on" or service fees: a \$33.51 reservation fee and a \$35 damage waiver fee (both generating NC sales tax). This renter would have driven his lodging expenditures even higher if he had elected to purchase travel insurance, linen rental packages, pet fees, and concierge services, all subject to sales tax. From the guest's perspective, the cost of renting a vacation home ("effective rent") is \$1,165. Impact studies see just \$1,097 in rent and attribute \$68.51 to retail sales. Although expressed as a \$68.51 charge per reservation, the aggregate value of service fees ($23000 \text{ units} \times 22.83 \text{ reservations per home} \times \$68.51 = \$35.9 \text{ million}$) is the difference between the industry's nominal commission rates (deemed to average 20%) and its "effective" commission rates (deemed to average 24.7%). This 24.7% effective commission rate is conservative compared to ResortQuest International's, whose 2002 service fees boosted its effective commission rate to 32%. See endnote i regarding ResortQuest.

^v **Average value of vacation rental home: \$360,000.** Based on interviews, Dare County tax database analysis. By comparison, the 2000 and 2001 annual reports of ResortQuest Int'l reflected average home values of \$361,000 and \$372,000, respectively. See endnote i regarding ResortQuest.

^{vi} **Average cost of new construction: \$293,340.** *The Affordable Housing Study for Dare County*, prepared by the Outer Banks Community Development Corporation, April 19, 2004, found that the average price of new construction in Dare County was \$266,673 during 2002. This figure has been grown 10% to estimate 2004 construction prices averaging \$293,340.

^{vii} **Land cost as percent of total home price: 33 %.** A preliminary review of Dare County tax records indicates that land can be more than half of the value of newer resort properties. To be conservative, land is here valued at 33% of the property's total value.

^{viii} **Growth rate for NC vacation rental homes: 8% (from 2002).** Based on interviews with NC vacation rental managers, AIMS study of Outer Banks markets and nationwide surveys reported by the Vacation Rental Managers Association.