

# The Economic Impact of Short-Term Rentals In the State of Texas 2018 Update



Prepared by



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## Overview

The popularity of short-term rentals (STRs) has surged as a lodging choice for travelers in almost all communities in the United States, allowing greater consumer choice as to the range and nature of travel accommodations. As the Lone Star State tourism and travel industry continues to grow, STRs have become a central part of the lodging market in communities as diverse as Rockport, Austin, Kerrville, and the Big Bend area.

This study updates the calculation of the economic impact of STRs on the state of Texas as a whole originally conducted in 2015 with estimates based on 2018 annual data. All properties self-identifying as short term or vacation rentals, specifically those listed on major STR websites, are included in this analysis. To set the context, the report provides a discussion of recent trends in tourism in Texas as well as the specific characteristics of the state's STR market.

Short-term rentals are an important part of the Texas lodging market and a significant contributor to the state's economy. In 2018, spending by visitors staying in STRs sustained a total impact of \$3.5 billion in economic activity and more than 35,000 permanent jobs in Texas.

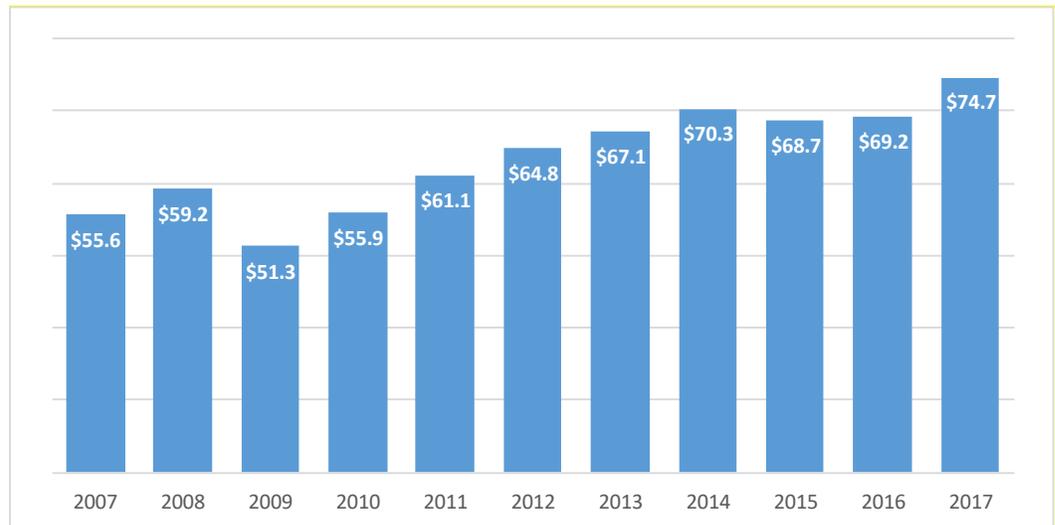
## Tourism and the State of Texas

According to Dean Runyan & Associates, Texas has experienced strong recent travel industry growth. Their *Economic Impact of Travel on Texas: 1994-2017p*, prepared for the Governor's Office of Travel & Tourism, states:

- Statewide room demand was strong at 6.1 percent following no increase in 2016. Room demand also increased in all of the state's seven tourism regions.
- Total current dollar travel spending in the state was \$74.7 billion in 2017, an increase of 8.0 percent. Visitor spending, excluding transportation, increased by 6.4 percent for the year. Total real dollar travel spending (adjusted for inflation) increased by 6.3 percent, compared to a 1.9 percent increase in 2016.
- Both employment and earnings continued to expand in 2017. Employment increased by 2.1 percent in 2017. The annual rate of increase since 2010 is 3.3 percent. Consistent with the growth in employment, real travel spending has also increased at a healthy rate since 2010 (3.6 percent per year).
- Local and state tax revenue also increased in 2017. Total local and state tax revenues were \$7.0 billion in 2017, an increase of 9.0 percent.

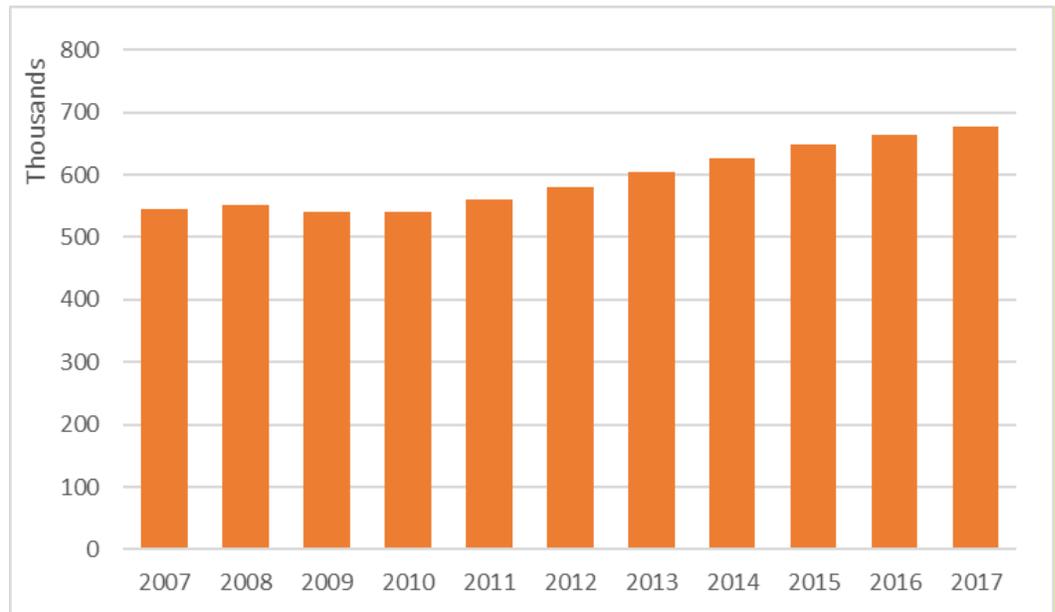
As the report indicates, the travel and tourism industries in Texas are an essential part of the state's economy; with total direct 2017 spending of \$74.7 billion, supporting 677,600 permanent jobs and generating \$4.2 billion in taxes for the State of Texas.

**Figure 1: Total Annual Visitor Spending in Texas (\$Billions)**



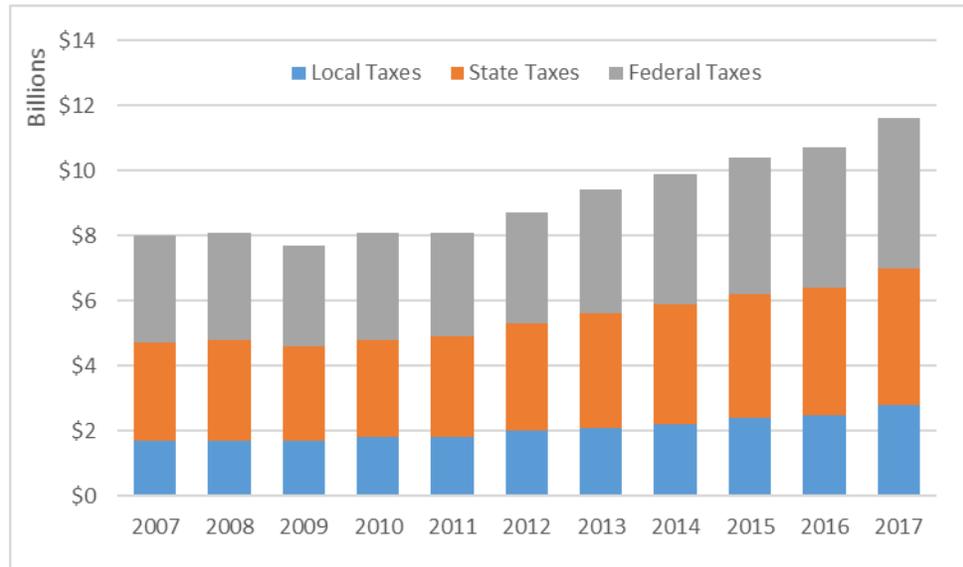
Source: Dean Runyan Associates; TXP, Inc.

**Figure 2: Total Employment Directly Supported by Visitor Spending**



Source: Dean Runyan Associates; TXP, Inc.

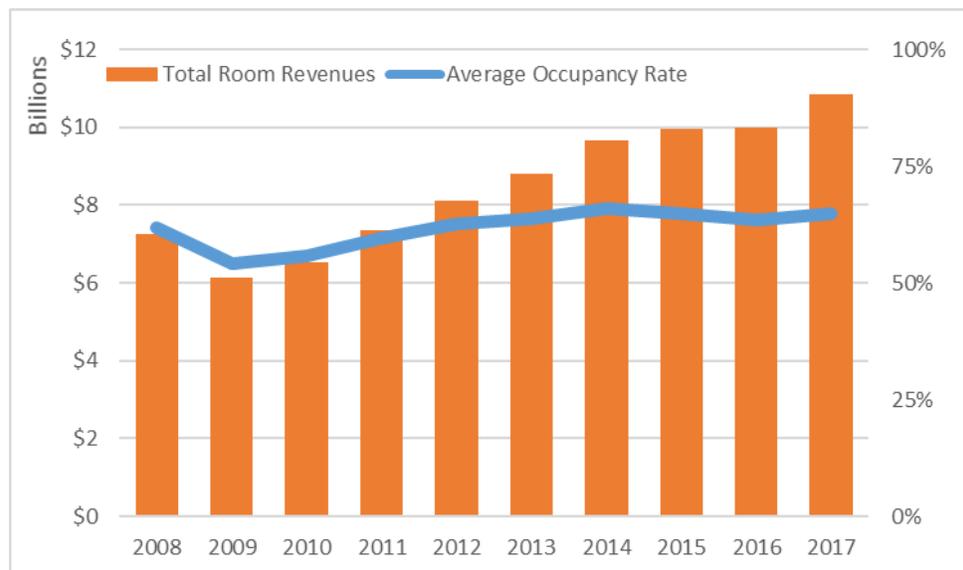
**Figure 3: Total Direct Tax Receipts from Visitor Spending**



Source: Dean Runyan Associates; TXP, Inc.

While Texas' tourism sector in general has expanded over the past two decades, the lodging industry component of travel has seen very strong revenue growth in the past few years. Between 2008 and 2017, state room revenue increased by 49.8 percent to well almost \$11 billion. Statewide average occupancy rates have been relatively level in recent years, although data from the first three quarters of 2018 shows an uptick of several percentage points. The figures below show an industry that continues to experience solid demand for its product simultaneously with the dramatic increase in participation in the STR market in Texas.

**Figure 4: Hotel Industry Revenue and Average Occupancy in Texas**



Source: Source Strategies; TXP, Inc.

**Figure 5: Hotel Industry Trends in Texas (Compound Annual Growth Rates)**

CAGR	Room-Nights Sold (000s)	Total Room Revenues (\$000s)	Percentage Occupancy	Average Nightly Rate	REVPAR
2008-17	7.8%	10.5%	5.1%	5.9%	7.8%
2016-17	8.0%	12.4%	2.9%	4.1%	7.1%

Source: Source Strategies; TXP, Inc.

## Short Term Rentals in Texas

Vacation rental properties have been part of the accommodations market for decades in some of Texas' most popular tourism destinations, especially along the Gulf Coast and in South Texas. In recent years, STRs have moved into virtually every community of any size in the state, with tens of thousands of listings and hundreds of thousands of bookings occurring annually. Identifying the exact number of unique STR properties in the state at any given point is a challenge, given the ability of hosts to market their properties on multiple sites, the use of primary residences as part-time STRs, and the use of STR websites by more traditional lodging accommodations. As a result, the focus of the direct impact of STRs for this report is on dollars generated – in other words, how much was spent by overall by visitors who stay in STRs, rather than the number of properties or visits per se.

## Economic Impact Calculations

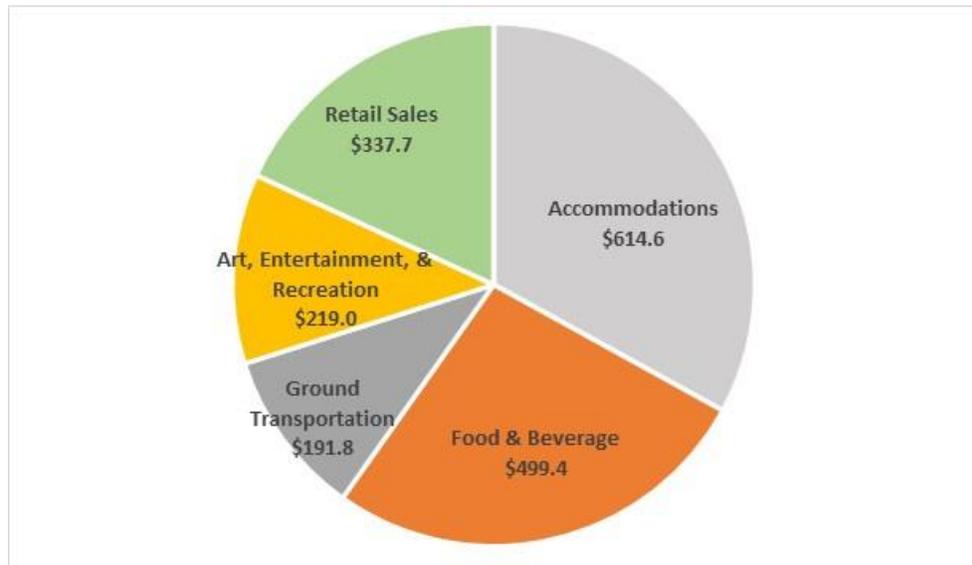
The 2018 economic impact of STRs in the state of Texas was calculated by first identifying the direct accommodations spending of visitors using STRs, using specific data from HomeAway and then various sources to derive an estimate of HomeAway's share of the overall STR lodging spending market. Next, the direct STR accommodations spending figure was used as the basis of calculating the STR guest direct spending on other tourism purchase categories. Using these figures, specific updated multipliers provided by the US Bureau of Economic Analysis RIMS II model for Texas were applied to estimate the ripple effects of the induced and indirect impacts. The total economic impact combines the direct spending with these ripple effects.

### Direct STR-Related Spending Estimates

Using data provided by vacation rental websites, the aggregate direct spending on lodging by STR guests in Texas totaled \$614.6 million in 2018. HomeAway provided data for the properties listed with their family of websites in the state. Information was also collected from other websites used for advertising and renting STRs. As many STR hosts use multiple websites to advertise and rent their properties, efforts were made to

eliminate duplicative data and care was taken to err on the conservative side when developing the overall direct STR lodging spending estimated. Using data from several different sources, including D.K. Shifflet & Associates and Dean Runyan, it was possible to then estimate the proportion of tourism spending attributable to other sectors than lodging, such as retail sales, food & beverage, and entertainment. These ratios were then applied to the amount spent by guests at STRs to calculate the total direct spending by STR users in Texas in 2018. In other words, for every dollar spent on lodging at an STR, a traveler might spend \$0.36 on entertainment and \$0.55 on retail sales. These estimated ratios of direct spending in different industry categories were both validated and refined using recent data from the US Bureau of Economic Analysis' Travel and Tourism Satellite Accounts dataset.

**Figure 6: 2018 Total Estimated Direct STR Visitor Spending in the State of Texas by Major Category (\$millions)**



Source: TXP, Inc.

### Economic Impact Methodology

The second step in the process is to translate the direct impact above into the total economic impact through an input-output model of the Texas economy that allows measurement of the secondary, or “ripple” effects.

Economists use a number of statistics to describe regional economic activity. Four common measures are:

- Output (also known as Economic Activity and equivalent to top-line revenue), which describes total economic activity and is equivalent to a firm’s gross sales or top-line;
- Value Added which equals gross output of an industry or a sector less its intermediate inputs or purchases from other firms used in the production process;
- Labor Income which corresponds to wages and benefits; and
- Employment, which refers to jobs that have been created in the local economy.

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 changes associated with the immediate effects or final demand changes. Spending by charitable bingo organizations to buy materials, services, and pay their employees are examples of direct effects.

**Indirect effects** are 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 from charitable bingo organizations means that suppliers themselves must purchase goods and other services. These downstream purchases affect the economic output of other merchants.

**Induced effects** are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. The restaurant owner in the community experiences increased income from spending by those who work for charitable bingo organizations, as does the cleaning supplies outlet. Induced effects capture the way in which increased income is spent in the economy.

**Figure 7: The Flow of Economic Impacts**



A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 2.5 for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$1,500 in output. The larger the multiplier, the greater the economic impact. In this analysis, TXP used the RIMS II input-output multipliers produced by the U.S. Bureau of Economic Analysis for Texas.

## Economic Impact Results

The direct spending by STR guests in Texas in 2018 sustained a total impact of \$3.5 billion in economic activity and more than 35,000 full-time, permanent. The table that follows details the total industry-level impacts. Further benefits accrue to state and local governments in the form of taxes assessed on direct spending by STR guests, as well as revenues generated by the ripple effects of that spending. Tourism tends to generate a high proportion of tax revenue compared to other industries. Most goods and services purchased by visitors are taxed, and many at a higher rate than other goods (motor fuel, car rentals, and alcohol, for example). Texas imposes a 6.25 percent sales tax on retail sales; local taxing jurisdictions can also impose up to an additional 2 percent. Additionally, the state hotel occupancy tax is 6 percent, with cities, counties, and special purpose districts authorized to impose additional local Hotel Occupancy Tax on room revenue generated within their jurisdiction.

**Figure 8: Total Economic Impact of Short-Term Rentals in Texas in 2018**

	Output (\$M)	Value-Added (\$M)	Earnings (\$M)	Jobs
Agriculture, etc.	\$24.1	\$9.5	\$5.2	259
Mining	\$39.3	\$27.5	\$7.1	72
Utilities	\$72.3	\$38.8	\$11.2	106
Construction	\$31.0	\$16.8	\$12.2	196
Durable Manufacturing	\$74.1	\$28.3	\$15.6	273
Non-Durable Manufacturing	\$243.3	\$72.8	\$39.6	644
Wholesale Trade	\$124.5	\$84.8	\$40.1	547
Retail Trade	\$349.8	\$229.0	\$121.0	4,642
Transportation & Warehousing	\$301.4	\$143.2	\$121.0	6,369
Information	\$106.1	\$61.7	\$21.3	309
Finance & Insurance	\$259.8	\$134.7	\$69.2	1,367
Real Estate	\$402.5	\$280.8	\$63.6	2,274
Professional Services	\$128.8	\$81.5	\$59.9	845
Management of Firms	\$59.5	\$35.6	\$24.8	303
Administrative & Waste Services	\$89.1	\$57.7	\$40.2	1,186
Educational Services	\$27.3	\$16.7	\$12.9	433
Health Services	\$207.3	\$124.3	\$96.7	2,042
Arts/Entertainment/Recreation	\$238.9	\$133.3	\$74.1	3,446
Accommodation	\$18.9	\$12.0	\$5.4	168
Food Services	\$572.4	\$301.8	\$189.1	8,773
Other Services	\$97.9	\$54.5	\$38.5	1,092
Households	NA	NA	\$2.4	216
<b>Total Annual</b>	<b>\$3,468.4</b>	<b>\$1,947.7</b>	<b>\$1,071.1</b>	<b>35,56</b>

Source: TXP, Inc.

## Conclusions

STRs are an important and growing part of the Texas' tourism industry. In 2018, spending by visitors staying in STRs sustained a total impact of \$3.5 billion in economic activity and more than 35,000 permanent jobs in the state's economy. It is increasingly clear that in Texas, as in other areas of the country, STR activity is serving to expand the lodging market by providing a complementary good: as STR revenues have climbed dramatically in the past few years, hotel occupancy rates and revenues have also continued to increase in the vast majority of local markets in Texas and across the nation. STRs serve a specific market - the casual leisure traveler. This traveler typically is interested in lodging options with amenities and geographic locations not fully satisfied by more traditional options. As a result, a region's overall travel and tourism industry activity, and the resulting local economic impact, is increased by including STRs in the available lodging options.

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