An Assessment of the Proposed Change in Vacation Rental Regulations in Palm Springs, CA

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Prepared for: City of Palm Springs, CA

TOURISM ECONOMICS

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1. Introduction

Introduction and definitions

This study examines the proposed change to regulations governing vacation rentals in the City of Palm Springs, California.

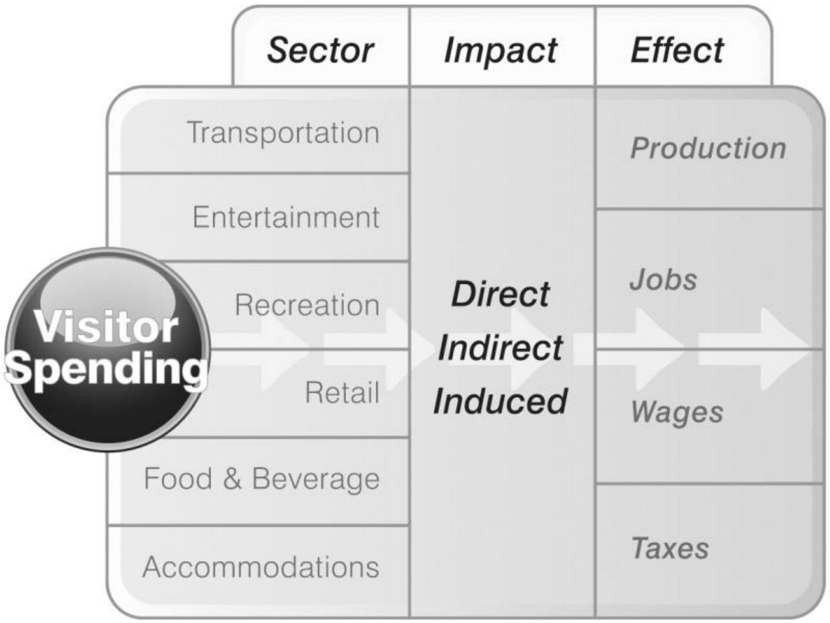
Current regulations allow the short-term vacation rental of single family dwellings in the City. The proposed change to City regulations would prohibit short-term vacation rentals in single family dwellings located on property with any R-1 zoning. The prohibition would go into effect 24 months after the adoption of the regulation change.

The City has a total of 1,986 units registered as vacation rentals and homeshares that hosted an estimated 467,000 visitors in 2017. In order to assess the potential impacts of the proposed change, this analysis estimates the number of units that would be affected by the rental prohibition, the visitor volume and direct spending associated with those units, the total economic impacts, and the impact on tax revenues generated.

Annual impacts are measured in terms of lost business sales and reduced employment, income, and tax revenues associated with fewer visitors. Total economic impacts include lower levels of direct visitor spending, and lost indirect and induced impacts. ***Direct visitor spending*** creates economic value in specific visitor-related sectors such as lodging, recreation, and transportation. This supports a relative proportion of jobs, wages, taxes, and GDP within each sector. ***Indirect benefits*** accrue to those sectors that provide goods and services as inputs into production, such as food wholesalers, utilities, and financial or legal services. ***Induced benefits*** are generated when employees whose incomes are driven directly or indirectly by visitors, spend a portion of that income in the local regional economy. Without the direct visitor spending, none of the indirect and induced benefits would be realized in the local economy.

How visitor spending drives employment and income in the local economy.

Reduced visitor spending would flow through the Palm Springs regional economy and generate indirect impacts through supply chain and income effects.



2. Key Findings

Summary findings

The prohibition of vacation rentals in single family units zoned R-1 would reduce visitor spending and all the associated benefits.

The proposed change to vacation rental regulations would prohibit rentals in single family units with any R-1 zoning, which would affect nearly three-quarters of the vacation rental market.

The prohibition would likely reduce visitor volume to Palm Springs and result in lower levels of direct visitor spending.

The visitor volume associated with the units that would be affected by the policy change amounts to more than 349,000 visitors to Palm Springs, after accounting for visitors likely to shift over to hotels. The loss of these visitors would lead to a reduction in visitor spending estimated to be $154.1 million.

Lower levels of visitor spending would lead to negative indirect and induced impacts in the Palm Springs economy, and the total economic impact would be a loss of $199 million annually.

Lower levels of sales would correspond to 1,158 fewer jobs and $35.9 million in lost annual income.

Annual local revenues lost would amount to $9.6 million.

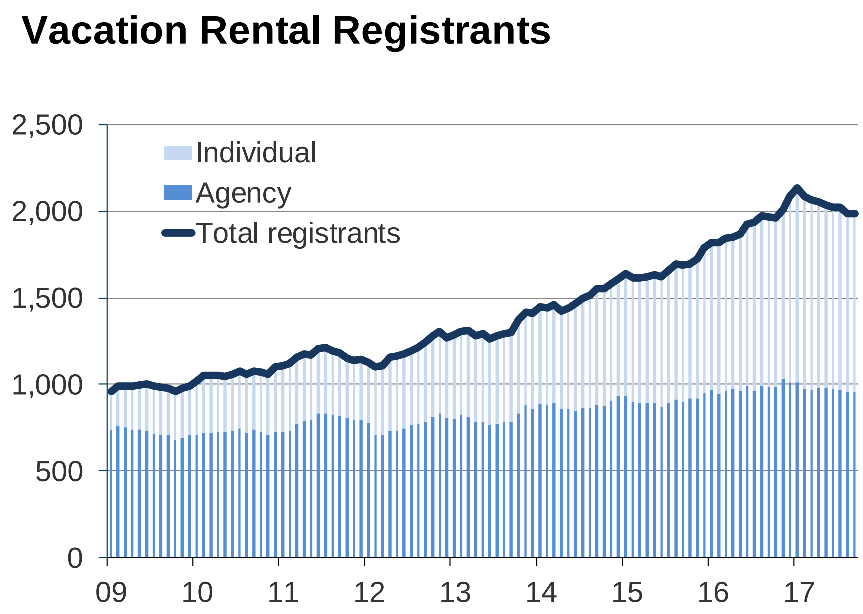
3. Vacation rental trends

Vacation rental registrants are on the rise

Vacation rental registrants have steadily increased since 2009.

In 2009, just under 1,000 units were registered as vacation rentals, with individual registrants accounting for approximately one quarter of all registrants.

During 2017, total registrant exceeded 2,000 units, and finished the year with 1,986 registrants. This rate of growth in registrants is nearly 10% per year since 2009, a substantial increase in eight years.



Source: City of Palm Springs Finance and Treasury

Individual registrants account for an increasing share

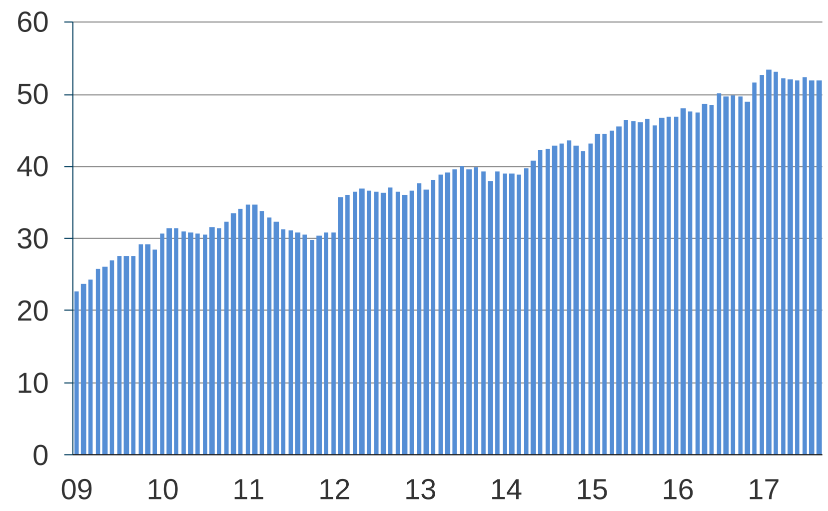
Individual registrants account for more than half of the total, up from about 25% in 2009.

In 2009, individual registrants amounted to roughly 250, about a quarter of the total.

Total registrants grew rapidly, and individual registrants grew even faster. In 2017, individual registrants totaled over 1,000 and accounted for more than half of the total.

Share of Individuals Registrants is Increasing

Share of total, %



Source: City of Palm Springs Finance and Treasury

Vacation rentals generate significant TOT revenues

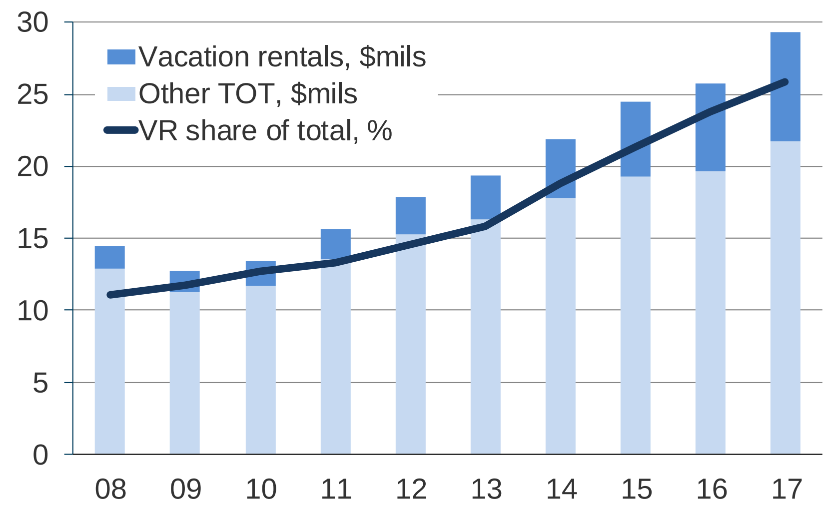
Vacation rentals generated $7.6 million in Transient Occupancy Tax revenues in fiscal year 2017.

In fiscal 2009, the City collected just under $15 million in Transient Occupancy Tax (TOT) revenues. The vacation rental segment of the market accounted for 11.1% of total TOT, bringing in $1.6 million.

Since fiscal 2008, total TOT revenues expanded 8.2% per year on average, while TOT revenue driven by vacation rentals grew 18.9% per year.

In fiscal 2017, vacation rentals accounted for $7.6 million in TOT revenues, or 25.8% of the total, more than doubling its share since fiscal 2008.

Transient Occupancy Tax Revenues



Source: City of Palm Springs Finance and Treasury

5. The proposed change

The proposed change would prohibit vacation rentals in most single family units

According to the proposed initiative, the term "vacation rental" is defined as "occupancy for dwelling, lodging, or sleeping purposes without the presence of the owner for a period of twenty-eight consecutive days or less."

Current city regulations prohibit the vacation rental of apartments after 1/1/2019, neither prohibit nor allow vacation rental of condo units as such, and allow the vacation rental of single family dwellings. The proposed change would maintain the prohibition on the vacation rental of apartments after 1/1/2019, allow the vacation rental of condo units, and prohibit the vacation rental of single family dwellings on property zoned R-1.

Palm Springs currently has a total of 1,986 vacation rental registrants as of the end of 2017, including 1,521 single family units, accounting for 76.6% of the total. Other registered units are condos, home shares, or multifamily units. According to City staff, approximately 96.5% of single family vacation rental registrants are zoned as R-1, meaning that nearly all would be affected by the prohibition.

This would mean that an estimated 1,468 single family units on property zoned as R-1 would be prohibited from registering as vacation rental units. This accounts for 73.9% of the current inventory of vacation rentals.

The prohibition would reduce the inventory of available vacation rental units by about 74%.

In order to assess the economic impact of the regulation change, visitor volume associated with the single family units that would be prohibited was estimated along with their annual spending in the Palm Springs local economy.

The 1,468 single family units are estimated to have hosted 387,982 visitors to the City in 2017. These visitors engaged in spending across various sectors of the local economy, such as food and beverage, retail shopping, recreation, and local transportation.

It is assumed that there is likely overlap between the vacation rental market and the hotel market, and absent a vacation rental option some visitors would seek lodging in hotels. For purposes of this analysis it is assumed 10% of vacation rental visitors would shift over to hotels, and as a result their spending would not be lost from the local economy. Therefore, the estimates of visitors and visitor spending actually lost from the local economy amount to 349,183 and $154.1 million, or 90% of the total volume and spending associated with the affected single family units. There is upside and downside risk to this assumption and actual losses to the regional economy would depend on the extent of overlap between the vacation rental and hotel markets: more overlap would translate to less losses, and less overlap between the markets would mean greater losses to the local economy.

Not incorporated into the analysis is any reduction of condo units that could be taken out of the vacation rental market due to home owners association rule changes that may come about as a result of the proposed regulation change, if it were to be adopted.

Economic impacts are reported on an annual basis and a long-term summation of potential ten-year impacts are also presented.

Lost visitor spending

Taking most vacation rental units offline would likely result in significantly lower visitor spending.

Vacation rental visitors spend across various sectors in the local economy. Lodging and food and beverage account for more than half of direct visitor spending, followed by retail, recreation, and local transportation.

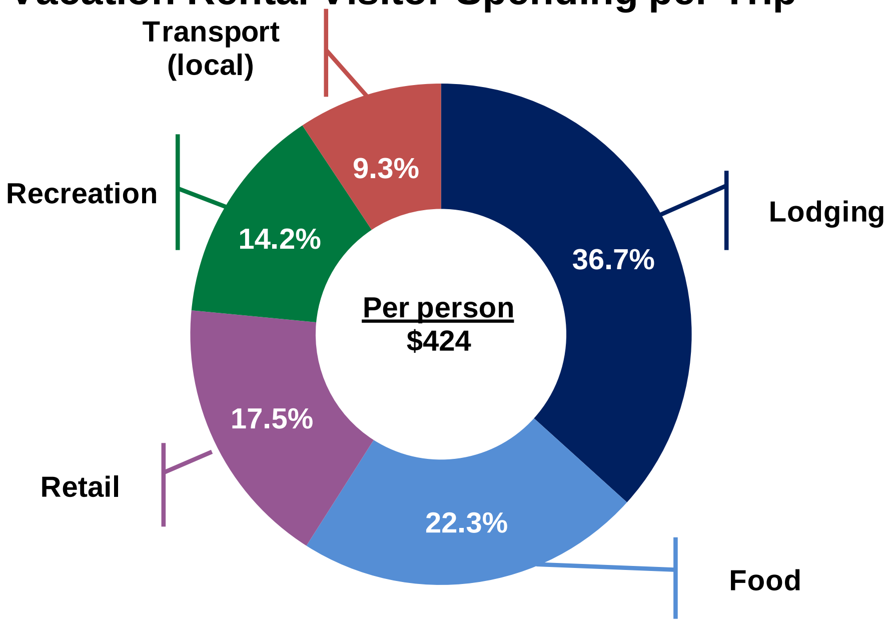
Total direct visitor spending likely to be lost from the economy would include:

- $54.4 million in lodging
- $33.1 million on food
- $25.9 million retail
- $21.0 million on recreation
- $13.8 million on local transport

These visitors also spend on air transportation, a portion of which, $6.0 million, stays in the local economy and generates jobs.

Total visitor spending lost from the local economy would amount to **$154.1 million** per year.

Vacation Rental Visitor Spending per Trip



Sources: DK Shifflet, CIS, Tourism Economics

Key metrics: affected share of the vacation rental market

	Vacation Rental Units	Annual Visitor Volume:	Annual Direct Spending
Vacation Rental mkt	1,986	467,094	$206.2 million
Affected SF, R-1 units	1,468	387,982	$171.2 million
Lost from Economy	--	349,183	$154.1 million

Sources: CIS, D.K. Shifflet, Tourism Economics

5. Economic impacts

Total lost business sales

A total of $154.1 million per year in direct visitor spending would be taken out of the local economy.

Fewer visitors to Palm Springs would correspond to a loss of $154.1 million in direct visitor spending, primarily in real estate rentals, retail, recreation, and food and beverage.

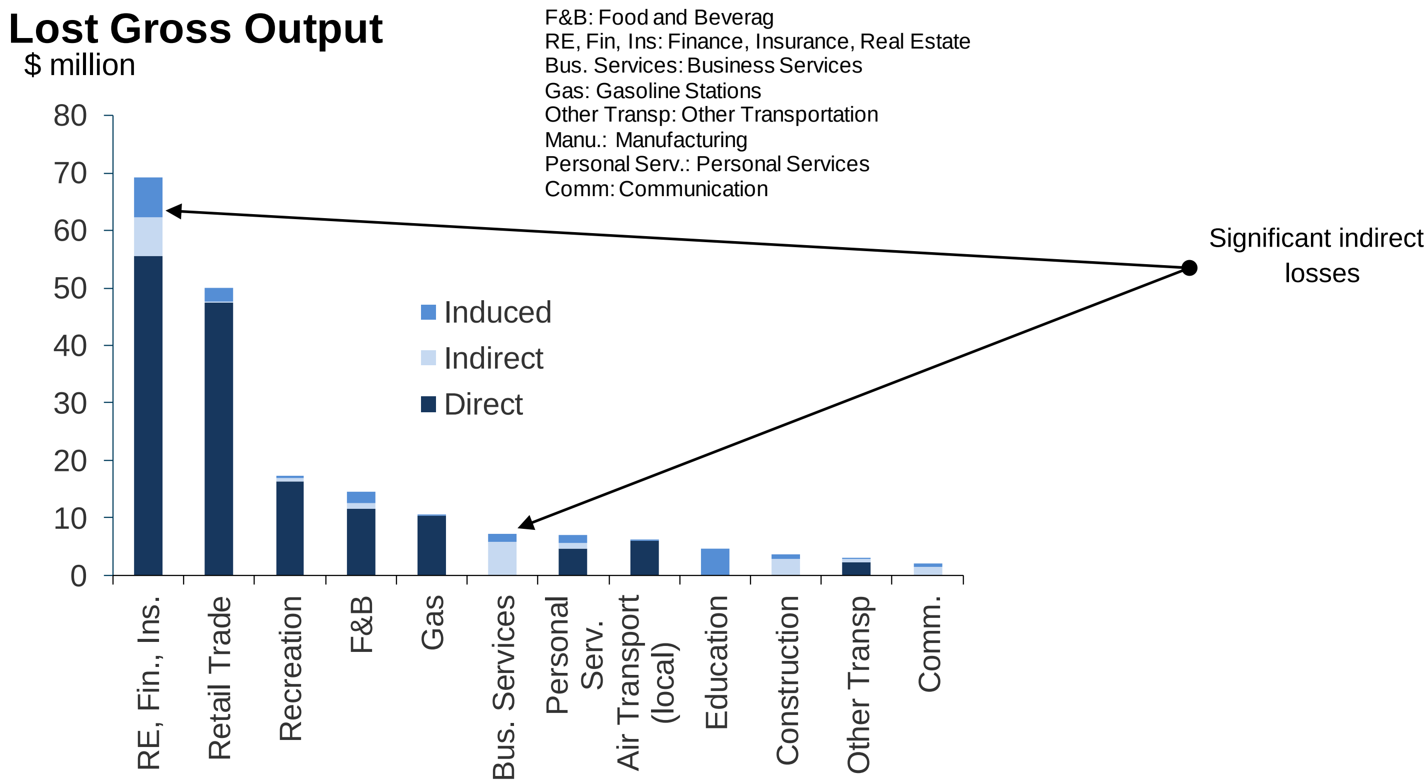
Adding direct, indirect, and induced impacts together, the total loss to the economy would be $199.3 million in lost business sales annually.

Gross Output (Business Sales) Impacts (US$ Million)				
	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	-	0.1	0.1	0.2
Construction and Utilities	-	2.8	0.8	3.6
Manufacturing	-	0.4	0.2	0.6
Wholesale Trade	-	0.5	0.6	1.1
Air Transport (local)	6.0	0.1	0.1	6.2
Other Transport	2.2	0.6	0.2	3.0
Retail Trade	47.5	0.2	2.4	50.1
Gasoline Stations	10.4	0.0	0.2	10.6
Communications	-	1.5	0.4	2.0
Real Estate, Rentals, Finance, Ins.	55.6	6.6	6.9	69.2
Business Services	-	5.8	1.3	7.1
Education and Health Care	-	0.0	4.5	4.5
Recreation and Entertainment	16.3	0.7	0.5	17.4
Lodging	-	0.2	0.2	0.4
Food & Beverage	11.5	1.1	1.9	14.5
Personal Services	4.7	1.0	1.3	7.0
Government	-	1.3	0.6	1.9
TOTAL	154.1	22.9	22.3	199.3

* Direct sales include cost of goods sold for retail sectors

Lost sales by industry

Indirect impacts would come primarily in real estate rentals, finance and insurance, and business services.



Employment impacts

Lower levels of sales would correspond to 1,158 fewer jobs in Palm Springs.

Lower levels of visitors spending would sustain the equivalent of 808 fewer direct jobs. There is likely variation surrounding the jobs impact since employers could adjust payrolls and maintain staffing levels in some cases. While all of these jobs may not actually be lost in the economy, the estimate provides an order of magnitude impact on jobs proportionate to the reduced level of business sales.

Direct impacts would come primarily in retail, recreation, and food and beverage.

Including indirect and induced jobs, the total jobs impact in Palm Springs would be 1,158 jobs potentially lost after prohibiting vacation rentals in single family R-1 units.

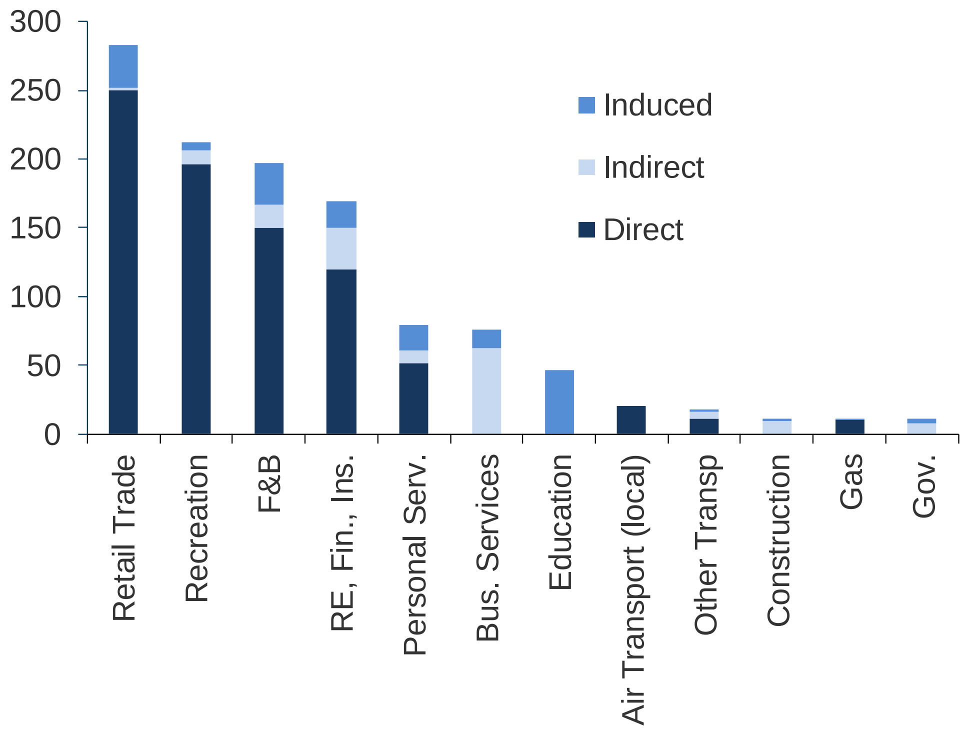
Employment Impact

	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	-	1	1	2
Construction and Utilities	-	9	2	11
Manufacturing	-	2	1	3
Wholesale Trade	-	3	3	6
Air Transport (local)	20	-	-	20
Other Transport	11	5	2	18
Retail Trade	250	2	31	283
Gasoline Stations	10	-	1	11
Communications	-	8	2	10
Real Estate, Rentals, Finance, Ins.	120	30	19	169
Business Services	-	62	14	76
Education and Health Care	-	-	46	46
Recreation and Entertainment	196	10	6	212
Lodging	-	2	2	4
Food & Beverage	150	17	30	197
Personal Services	51	10	18	79
Government	-	8	3	11
TOTAL	808	169	181	1,158

Employment impacts by industry

Indirect and induced impacts would occur across sectors.

Employment Impacts



Income impacts

A total of $35.9 million in income would be lost from the Palm Springs economy on an annual basis.

Lower levels of visitor spending would drive fewer jobs and less income earned.

Direct income earned would be $21.9 million lower annually. This includes income earned at restaurants, retail shops, and other businesses where vacation rentals visitors spend.

Indirect impacts would include a loss of $6.9 million in indirect income, and $7.2 million in induced income benefits that would not be realized.

The total impact on income earned in Palm Springs would be a loss of $35.9 million per year.

Labor Income Lost
(US$ Million)

	Direct	Indirect	Induced	Total
Agriculture, Fishing, Mining	-	0.0	0.0	0.1
Construction and Utilities	-	0.7	0.2	0.9
Manufacturing	-	0.1	0.0	0.1
Wholesale Trade	-	0.2	0.2	0.4
Air Transport (local)	1.1	0.0	0.0	1.1
Other Transport	0.8	0.3	0.1	1.2
Retail Trade	6.7	0.1	1.0	7.8
Gasoline Stations	0.5	0.0	0.1	0.6
Communications	-	0.3	0.1	0.4
Real Estate, Rentals, Finance, Ins.	2.4	0.9	0.5	3.8
Business Services	-	2.3	0.5	2.9
Education and Health Care	-	0.0	2.5	2.5
Recreation and Entertainment	4.8	0.2	0.1	5.2
Lodging	-	0.1	0.1	0.1
Food & Beverage	3.3	0.4	0.7	4.5
Personal Services	2.2	0.5	0.6	3.4
Government	-	0.7	0.2	0.9
TOTAL	21.9	6.9	7.2	35.9

Impact on tax revenues

A total of $9.6 million in local tax and fee revenues would be lost per year.

Vacation rental visitors and their spending generate significant tax revenues. A total of $9.6 million in local revenues would be lost if single family vacation rentals were prohibited.

Local tax revenues lost would include $2.5 million in sales tax, $6.3 million in Transient Occupancy Tax (TOT) revenues, and $0.9 million in other taxes and fees such as permitting and licensing.

Annual Tax Revenues Lost

$ millions

	Amount
Local taxes	
Sales tax	2.5
Lodging (TOT)	6.3
Other excise and fees	0.9
Total local revenues	**9.6**

Long-term impacts

If the prohibition of vacation rentals is on-going the long-term losses to the economy would accumulate.

Assuming just 3% growth per year, the 10-year cumulative losses to the Palm Springs economy would be significant.

A total of $1.8 billion in direct visitor spending would be taken out of the economy, more than $2.3 billion in total business sales lost, more than $411.9 million in lost income, and more than $110.3 million in lost local revenues.

Long-term Impacts

	10-Year Cumulative Impact
Direct spending (mils)	$ 1,766.8
Total business sales (mils)	$ 2,285.3
Income (mils)	$ 411.9
Local tax (mils)	$ 110.3

Note: Assumes 3% growth per year

5. Data Sources and Methods

Methods and data sources

Estimates of the economic impact of vacation rental visitors to Palm Springs, and the losses likely to be incurred if the proposed regulations change is adopted, were based on several sources:

- Visitor profile data and spending estimates produced by the Greater Palm Springs CVB.
- Volume and segmentation data from DK Shifflet and Associates, a consumer research firm.
- Smith Travel Research (STR) data on the hotel sector, including supply, demand, revenues, average rates, and occupancy rates.
- Data on Transient Occupancy Tax (TOT) for Palm Springs were available from the City and from Visit California.

Key metrics incorporated into the analysis based on survey data include an average length of stay of 5.1 days and average party size of 5.4, based on rental contracts data maintained by City staff in the Vacation Rentals department.

A total effective local sales tax rate of 2.5% was used and includes Measure J and Measure D rates, and a TOT rate of 11.5% was incorporated.

This analysis is based on previous work completed on behalf of the Palm Springs CVB, including overall economic impact analyses of the broader tourism industry in the Greater Palm Springs region, and an analysis of the vacation rentals segment of the market, also for the Greater Palm Springs region. In these studies, total visitor volume and spending were estimated based on survey work completed by DK Shifflet and Associates, and the survey firm CIS, along with additional data sources such as city level TOT, data covering the city hotel markets in Greater Palm Springs including metrics on room demand and supply, room revenues, occupancy rates, and average room rates.

These previous analyses provide context for this assessment of vacation rentals in the City of Palm Springs and many of the estimates in this report were generated by sharing down from totals for the broader Greater Palm Springs Region, which includes nine cities.

An IMPLAN input-output (I-O) model was constructed for Riverside County. The model traces the flow of visitor-related expenditures through the local economy and their effects on employment, wages, and taxes. IMPLAN also quantifies the indirect (supplier) and induced (income) impacts of tourism. Tourism Economics then cross-checked these findings with employment and wage data for each sector to ensure the findings are within reasonable ranges. Adjustments were made to model output to ensure the capture of indirect economic impacts in the city only, and not a wider geographic area.

The IMPLAN model uses industry averages for gross output, value added, and income, based on data from various government sources, such as the Bureau of Economic Analysis and the Bureau of Labor Statistics. The I-O model accounts for inter-industry relationships and captures how much additional demand in supplier industries results from additional final demand in a directly affected industry.

About Tourism Economics

Tourism Economics is an Oxford Economics company with a singular objective: combine an understanding of tourism dynamics with rigorous economics in order to answer the most important questions facing destinations, developers, and strategic planners. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, destination recovery plans, tourism forecasting models, tourism policy analysis, and economic impact studies.

With over four decades of experience of our principal consultants, it is our passion to work as partners with our clients to achieve a destination's full potential.

Oxford Economics is one of the world's leading providers of economic analysis, forecasts and consulting advice. Founded in 1981 as a joint venture with Oxford University's business college, Oxford Economics enjoys a reputation for high quality, quantitative analysis and evidence-based advice. For this, its draws on its own staff of 30 highly-experienced professional economists; a dedicated data analysis team; global modeling tools, and a range of partner institutions in Europe, the US and in the United Nations Project Link. Oxford Economics has offices in London, Oxford, Dubai, Philadelphia, and Belfast.

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