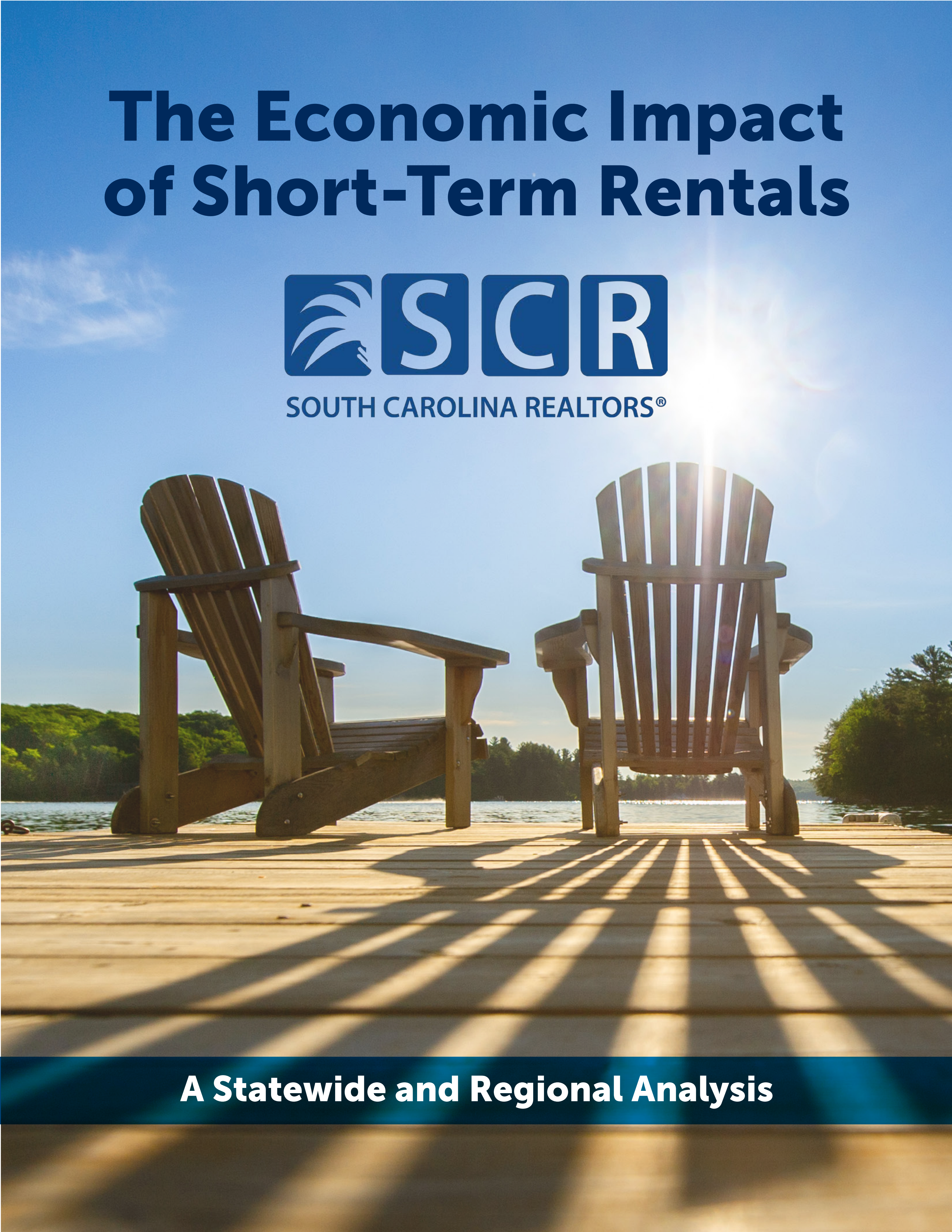
The Economic Impact of Short-Term Rentals

SOUTH CAROLINA REALTORS®



A Statewide and Regional Analysis

SOUTH CAROLINA REALTORS®

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Author Profile

Dr. Joseph C. Von Nessen is a research economist in the Division of Research at the Darla Moore School of Business where he specializes in regional economics, regional economic forecasting, and housing economics. He regularly conducts a wide variety of economic impact analyses, feasibility studies, and independent market research projects for clients in both the private and public sector.

Dr. Von Nessen engages in industry-level and regional economic forecasting for organizations at the state, national, and international level. He has served as lead researcher on projects with clients as diverse as Sonoco, BlueCross BlueShield, Boeing, and the Savannah River National Lab, among others. He has also been the recipient of many grants from both local and national sources, including the U.S. Department of Defense and the U.S. Department of Energy.

Dr. Von Nessen is also responsible for the preparation and presentation of the University of South Carolina's annual statewide economic forecast. He serves on the advisory committee of the South Carolina Board of Economic Advisors and is regularly invited to brief the Federal Reserve Bank of Richmond on economic conditions in South Carolina. He regularly appears on programs at national conventions, including the North American Regional Science Council and its subsidiaries.

Dr. Von Nessen is a frequent speaker for business and government leaders throughout the Southeast, providing information and consultation about business, housing markets, and local economies. He also makes frequent media appearances to discuss various local economic topics of interest.

Executive Summary

- *A short-term rental is usually defined as either a private, furnished room or a private home that is available for short periods of time – from a few days to several weeks. In many cases, short-term rentals effectively serve as vacation rentals and can include both private residences as well as investor-owned properties that are operated by short-term rental companies in a similar fashion to hotels.*

- *Over the past fifteen years, the global demand for short-term rental properties has grown exponentially and has rapidly become a mainstream and widely used alternative to more traditional forms of temporary lodging (e.g., hotels, condos). Following the founding of Airbnb, the popularity of home-sharing increased as online access to such properties experienced significant growth. Since 2018 alone, the demand for short-term rentals in South Carolina has expanded at an annual rate of over 17 percent.*

- *Despite the continued widespread availability of more traditional forms of temporary lodging, short-term rentals are growing in market share. This suggests that short-term rentals are attracting new tourists to communities that may not have visited otherwise. These tourists, in turn, introduce a significant volume of new spending into the state's economy each year that supports local businesses and generates new economic activity across South Carolina.*

- *The current annual economic impact of the short-term rental market on the state of South Carolina is estimated to total approximately $4.2 billion annually. This figure reflects the dollar value representing all final goods and services produced statewide that can be attributed (directly or indirectly) to the short-term rental market. This level of economic activity corresponds to 50,231 jobs and more than $1.4 billion in labor income for South Carolinians.*

- *These impacts extend to most areas of South Carolina, with the largest annual impact occurring in the Myrtle Beach metropolitan region. This is followed by the metropolitan regions of Hilton Head, Charleston, Greenville, Columbia, and Spartanburg.*

- *Short-term rentals are also estimated to generate an additional $1.8 billion in revenue for property owners each year. Because many of these property owners live in South Carolina, they will spend a portion of this income locally that will further increase the total economic impact of short-term rentals. Moreover, rental properties are usually taxed at higher rates than owner-occupied properties and may therefore generate a relatively higher volume of state tax revenue.*

Section I – Introduction

Over the past fifteen years, the global demand for short-term rental properties has grown exponentially and has rapidly become a mainstream and widely used alternative to more traditional forms of temporary lodging (e.g., hotels, condos). Following the founding of Airbnb in 2008, the popularity of home-sharing increased as online access to such properties experienced significant growth. As of 2019, the short-term rental industry is estimated to have expanded to approximately $115 billion worldwide. A short-term rental is usually defined as either a private, furnished room or a private home that is available for short periods of time – from a few days to several weeks. In many cases, short-term rentals effectively serve as vacation rentals and can include both private residences as well as investor-owned properties that are operated by short-term rental companies in a similar fashion to hotels. According to data from AirDNA, U.S. demand for short-term rentals has grown annually by nearly 20 percent since 2018 and by over 17 percent in South Carolina.

The economic impacts of short-term rentals generally come about from two primary sources. The first impact comes about from the new visitor spending that is introduced into the local economy as a result of the renters themselves. This includes not only the spending on lodging, but also all of the spending with local businesses that typically accompanies local travel. In addition, these direct expenditures also generate secondary economic impacts by way of the economic multiplier effect. Such secondary impacts are specifically the result of increases in demand among the aforementioned establishments that can lead to more widespread revenue and employment gains. For example, an increase in the number of tourists can increase demand at local restaurants that, in turn, increases the number of jobs at these restaurants as well as the spending that these restaurants engage in with their own local suppliers. These suppliers would then see an increase in demand, and so on. Such an iterative process makes the total economic gains to tourism far larger than just those generated directly by an increase in spending of the renters themselves.

> *U.S. demand for short-term rentals has grown annually by nearly* ***20 percent*** *since 2018 and by over* ***17 percent*** *in South Carolina.*

The second impact arises from the revenue that is generated for property owners earning short-term rental income. For example, in South Carolina, annual revenues for short-term rentals range from $10 million in non-coastal regions to over $200 million in more popular, coastal cities with high levels of tourism. Many property owners live in South Carolina and spend a portion of this income locally – and rental properties are also taxed at higher rates than owner-occupied properties, which generates higher tax revenue for South Carolina.

The purpose of this research effort is to conduct an analysis that specifically estimates the total economic impact of the short-term rental market on the state of South Carolina. This total impact, in turn, would also represent the potential economic losses that could occur to the extent that short-term rentals are restricted in the future. The following section of this report details the specific methodology by which this economic impact can be estimated. Section III then provides a review and discussion of the main results of this analysis. Finally, Section IV provides a brief conclusion.

Section II – Methodology

In order to estimate the specific economic impacts of the short-term rental market on the state of South Carolina, the total annual number and location of short-term rentals must first be established. In this study, specific data from AirDNA were collected on the number of active listings, occupancy rate, and rental revenue for properties across South Carolina – including the individual markets of Charleston, Columbia, Greenville, Hilton Head, Myrtle Beach, and Spartanburg. AirDNA is an industry-leading data provider for short-term rental data, actively tracking the performance of over 10 million Airbnb and Vrbo listings in 120,000 markets worldwide.[1] **Table 1** highlights these estimates for each of the six aforementioned markets.

Table 1: Short-Term Rental Property Data in South Carolina

Monthly averages reflect the most recent 12-month period
Source: AirDNA, December 2022

Market Region	Current # of Active Listings	Avg. Monthly Occupancy Rate	Avg. Monthly Rental Revenue
Charleston	6,629	71.4%	$5,429
Columbia	1,237	60.5%	$2,328
Greenville	1,285	64.8%	$2,241
Hilton Head	8,126	74.0%	$4,446
Myrtle Beach	15,865	66.7%	$3,214
Spartanburg	277	59.1%	$1,919

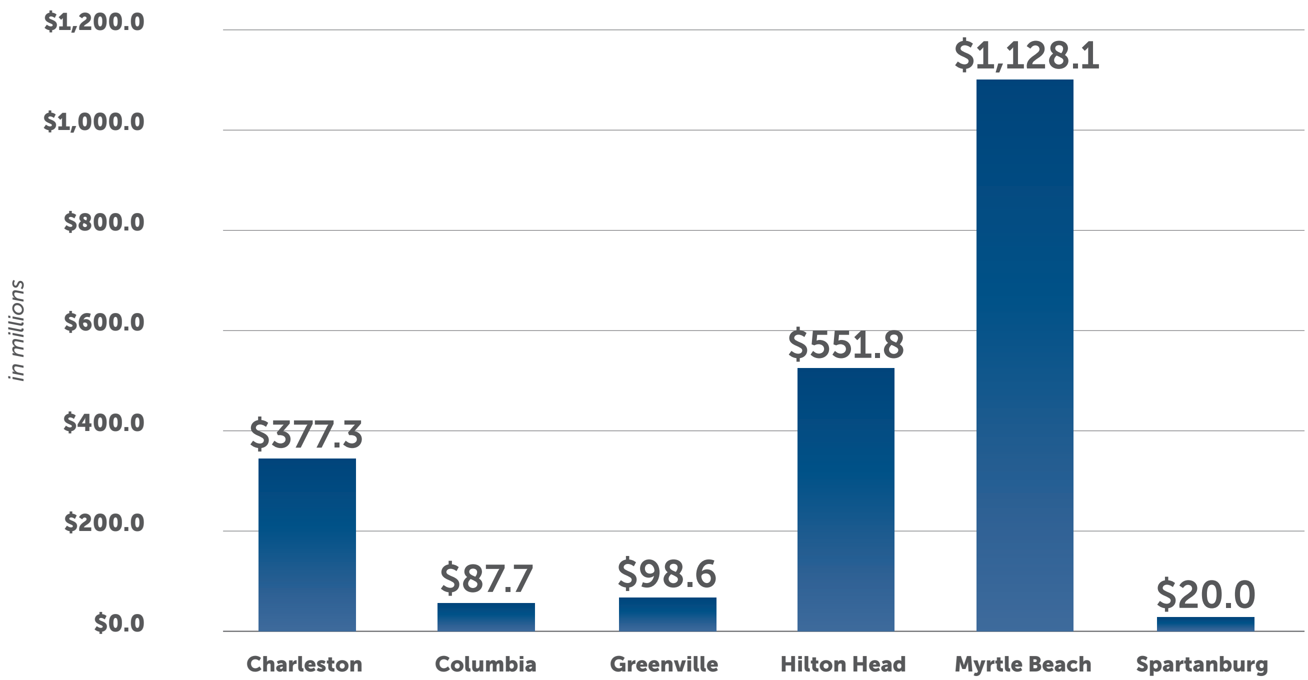
[1] All data from AirDNA were provided via the SC REALTORS

> *In South Carolina, the three markets with the largest number of active listings are the coastal regions of Myrtle Beach, Hilton Head, and Charleston. Nevertheless, short-term rentals generally permeate all regions of South Carolina and generate economic impacts statewide - including in Columbia, Greenville, and Spartanburg.*

Note that in South Carolina, the three markets with the largest number of active listings are the coastal regions of Myrtle Beach, Hilton Head, and Charleston. Nevertheless, short-term rentals generally permeate all regions of South Carolina and generate economic impacts statewide - including in Columbia, Greenville, and Spartanburg. For example, **Table 1** illustrates that in the Charleston market, there were approximately 4,733 occupied short-term rentals in December 2022 that were generating an average of $5,429 in revenue each. This implies that short-term rentals in Charleston were likely to have collectively generated nearly $26 million in December 2022 alone.

In addition to property revenue, these short-term rentals also generate a significant volume of new visitor spending that renters introduce to the local economy during the time period in which they occupy a specific rental unit. This would include all expenditures normally accompanying local travel, such as costs related to restaurants, retail shopping, entertainment venues, and transportation. In order to estimate the specific spending patterns of renters, data from the South Carolina Department of Parks, Recreation, and Tourism (SCPRT) were obtained on the characteristics of overnight leisure travel groups. This includes information on the average group size, length of stay (number of nights), and average group expenditures (for the total visit). These data were then combined with the information provided by AirDNA to estimate the total annual direct visitor spending in each market that occurred as a result of travel associated with short-term rentals. **Figure 1** highlights these estimates.

Figure 1: Estimated Direct Annual Visitor Spending Due to Short-Term Rentals



Despite the significance of these impacts, these estimates nevertheless do not provide a complete picture of total impact of new visitors within a local region. These initial expenditures represent new, direct economic activity for each local region in which they are made. However, these expenditures also lead to additional job creation and economic activity by way of the economic multiplier effect (or economic ripple effect). Economic multiplier effects can be divided into direct, indirect, and induced impacts. The direct impact reflects all local purchases made by the renters themselves, such as spending on restaurants or entertainment venues. This spending activity increases demand and leads to the creation of new jobs and more income for employees and local suppliers of these businesses.

The indirect impact reflects all additional economic activity that results from inter-industry linkages between local firms within the region. For example, when the aforementioned restaurant experiences an increase in demand, it will purchase additional raw ingredients – some from local vendors. These vendors, in turn, will also experience an increase in demand. To satisfy this demand, they must purchase additional inputs from their own suppliers. These suppliers must then purchase additional supplies as well, and so on. These indirect effects ripple through the economy and affect many sectors throughout the region.

The induced impact reflects additional economic activity that results from increases in the spending of household income. For example, when the aforementioned restaurant purchases materials from one of its suppliers and the overall demand for this supplier firm rises, some of the staff working for this supplier will see a rise in their income levels. Part of this income will then be spent locally on, for example, health care, housing, or entertainment. These industries will then also see an increase in demand for their goods and services, which will lead to higher incomes for some of their employees, part of which will also be spent locally.

These successive rounds of indirect and induced spending do not go on forever, which is why we can calculate a value for each of them. In each round, money is "leaked out" for a variety of reasons. For example, firms may purchase some of their supplies from vendors located outside of South Carolina. In addition, employees will save part of their income or spend part of it with firms located outside of the local region. In order to determine the total economic impact that will result from an initial direct impact, economic multipliers are used. An economic multiplier can be used to determine the total impact (direct, indirect, and induced) that results from an initial change in economic activity (the direct impact). Multipliers are different in each sector of the economy and are largely determined by the size of the local supplier network as well as the particular region being examined. In addition, economic multipliers are available to calculate not just the total impact, but also the total employment and income levels associated with the total impact.

To estimate the economic impacts in this study, detailed structural models (known as input-output models) of the state of South Carolina that contain specific information on economic linkages between all industries within the state were used. The input-output modeling software IMPLAN was used in conjunction with other customized regional forecasting models that were developed to calculate all estimates. This allowed for the inclusion of additional local data, industry knowledge, and recent economic growth patterns.

Section III – Primary Results

The structural input-output models used in this analysis estimate impacts in terms of three specific measures: economic output, employment, and labor income. Economic output reflects the dollar value of all final goods and services generated as a result (directly or indirectly) of the short-term rental market. Because it includes all spending by consumers and businesses on both goods and services, it is an all-inclusive measure of the impact on total economic activity. Employment measures the total number of full-time equivalent positions associated with total economic output. Labor income reflects all employee compensation associated with total employment estimates, including wages, salaries, and benefits.

As described above, the short-term rental market generates a significant volume of new visitor spending activity in each local market throughout South Carolina each year. These direct economic impacts also lead to indirect and induced impacts through increases in demand for goods and services in other related industries and through increases in household spending activity – all of which are estimated using economic multipliers. Each impact is reported in **Table 2**, along with the accompanying totals. These totals represent the overall impact of short-term rentals on the state of South Carolina.

Table 2: Total Annual Economic Impact of Short-Term Rentals on South Carolina

	Annual Employment	Annual Labor Income	Annual Total Impact
Direct Effect	39,056	$818,692,041	$2,263,415,947
Multiplier Effect	11,175	$599,207,987	$1,941,210,869
Total Impact	50,231	$1,417,900,028	$4,204,626,816

> *The combination of all direct effects and their subsequent multiplier effects leads to a total annual economic impact of approximately **$4.2 billion**, which supports a total of **50,231** total jobs in South Carolina each year.*

As shown in **Table 2**, this study estimates the total direct economic impact of the short-term rental market in South Carolina to be approximately $2.3 billion annually. This impact represents the effects of all new, direct expenditures introduced into each local region by the renters themselves. This direct impact also supports 39,056 jobs and roughly $818.7 million in labor income statewide.

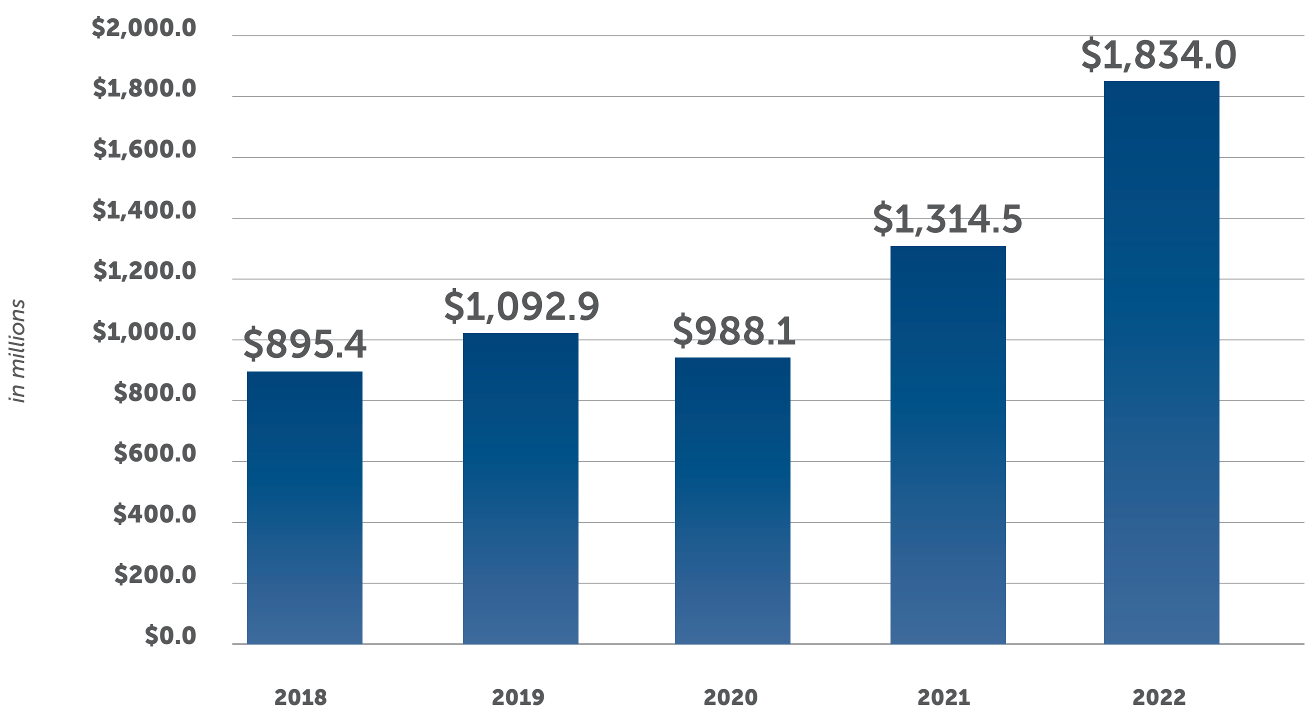
This level of direct economic activity then subsequently leads to additional rounds of local spending activity – known as the multiplier effect – which totals approximately $1.9 billion in additional economic output for South Carolina along with 11,175 additional jobs. These multiplier effects reflect the increased demand for goods and services among local businesses resulting from local expenditures on the part of local visitors in each region as well as the local economic activity generated across all industries resulting from increased spending among the employees of these businesses. The combination of all direct effects and their subsequent multiplier effects leads to a total annual economic impact of approximately $4.2 billion, which supports a total of 50,231 total jobs in South Carolina each year.

When examining these results, it is also important to recognize that short-term rentals have been steadily growing in market share over the previous decade, which includes growth in South Carolina of over 17 percent since 2018 alone. And over the same time period, there has also been consistent, widespread availability of more traditional forms of temporary lodging (e.g., hotels, condos). For example, in 2022, despite a rapidly recovering tourism sector, hotel occupancy in South Carolina averaged just 61.5 percent.[2] This suggests that short-term rentals are attracting new tourists to communities that may not have visited otherwise. As such, the visitor spending that these tourists generate – and that serve as the basis for the impact estimates highlighted in **Table 2** – may represent new economic activity for each region that would otherwise be lost without the presence of the short-term rental market.

[2] Source: South Carolina Department of Parks, Recreation, and Tourism

In addition to the economic impacts that arise from new visitor spending within a local region, short-term rentals also generate economic impacts from the revenue that is generated for property owners. To the extent that property owners of short-term rental properties live in the state of South Carolina, they are likely to spend a significant portion of this rental income locally and generate additional new economic activity – including jobs and incomes – statewide. As of 2022, short-term rentals in South Carolina are specifically estimated to generate an additional $1.8 billion in revenue for their property owners each year. Moreover, the annual revenue generated by short-term rentals has more than doubled since 2018 – from $895.4 million in 2018 to $1.8 billion in 2022 – as **Figure 2** highlights.

Figure 2: Estimated Annual Revenue Generated by Short-Term Rentals in South Carolina



Section IV – Conclusion

Short-term rentals represent a rapidly growing segment of the global real estate market. Since 2018, the demand for short-term rentals has grown by nearly 20 percent nationwide and by over 17 in South Carolina alone. These strong growth rates have emerged despite the continued widespread availability of more traditional forms of temporary lodging (e.g., hotels, condos). This suggests that short-term rentals are attracting new tourists to communities that may not have visited otherwise. These tourists then introduce new spending to these local communities and generate new economic activity that helps support local businesses.

This study has specifically examined the economic impact of short-term rentals on the state of South Carolina. Using data from AirDNA, the annual economic impact of short-term rentals on the Palmetto State is estimated to total approximately $4.2 billion annually. This level of economic activity corresponds to 50,231 jobs and more than $1.4 billion in labor income for South Carolinians. And while these impacts are largely concentrated in the coastal regions, they nevertheless extend statewide. The largest annual impacts of short-term rental markets occur in the Myrtle Beach metropolitan region, followed by the metropolitan regions of Hilton Head, Charleston, Greenville, Columbia, and Spartanburg.

In addition to stimulating new economic activity through increased tourism, short-term rentals are also estimated to generate $1.8 billion in revenue for property owners each year. Many of these property owners, in turn, live in South Carolina and thus spend a portion of this income locally that further increases the total economic impact of short-term rentals.

According to data from the U.S. Census Bureau, the Southeastern United States is likely to experience among the highest rates of population growth among all U.S. regions over the next two decades, which will include significant population growth for South Carolina. This suggests that the region will continue to be a popular tourist destination in the years to come, implying that the demand for short-term rentals will remain strong.

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