Estimating the Economic Impact of the Short-Term Rental Market in Conway, New Hampshire

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Executive Summary

Many communities are considering the impact of short-term rentals on their towns and cities. The push for regulation can have many sources, including competing hotels, inns, and B&Bs. There is often additional pressure for regulation that originates in neighborhoods that are impacted by short-term rentals (STR). This report considers the broad economic impact of STRs in Conway, New Hampshire. A review of the current state of the STR industry opens the report. That is followed by consideration of the impact of STRs on rents and real estate prices, as well as the overall economic impact of STRs on the Conway area.

In general, there is a very modest impact of STRs on rent prices, as well as real estate prices, based on the extant research. In fact, 2021 has seen a tremendous spike in housing prices in New Hampshire, and virtually none of that is driven by STRs, but rather, due to changes in where people want to live and work. Research has shown us that the income of residents as well as the percentage of homes owned by out-of-state residents have a much larger impact on housing prices than STRs.

However, STRs do significantly impact Conway's economy in other ways. Using data from Airbnb, the town of Conway, and other sources, we can estimate the economic benefits that accrue from the presence of STRs in Conway. This report shows that the overall impact is likely above $45 million annually based on spending for STRs, and more importantly, the money spent by visitors in the area. By adding in the "tourism multiplier," we can quantify the positive impact that STR guests have on local businesses, as well as their employees and suppliers.

In the event STRs were removed from Conway, the economic impact of STRs would also be removed. People often assume that if the STRs were to go away, then guests would simply go to a hotel, inn, or B&B. That is usually not the case in tourist communities, where accommodations are normally fully booked during peak season. The STR guests simply cannot find a place to stay and look elsewhere, taking their money with them.

In sum, the economic benefits of STRs are quite large, even in a small town like Conway. While it is tempting to regulate them out of existence, it is important to consider the broad economic consequences of doing so before moving forward.

Introduction

Over the past several years the short-term rental industry has come under fire with respect to the potential impact that it can have on real estate markets, competing inns and hotels, and neighborhoods. The dynamics of the increase in STR properties in some areas has resulted in many communities considering restrictions to limit, or even eliminate, STRs. These restrictions can come in various styles, from laws passed at the state level to regulations from local governments. In some cases, the restrictions are based on demands and pressure from residents. In others, existing hotels and inns work to limit STRs to keep competition at bay.

It is important to note that STRs have been present for years, even decades, and well before Airbnb and VRBO came onto the scene. Owners once advertised in newspapers, travel brochures, and relied on word-of-mouth communication to attract guests. In addition, real estate agents were, and still are, used to locate and secure STRs in some markets (e.g., Provincetown). The industry is not new, but the new website portals have made it easier for people to list homes for the vacation market, increasing visibility.

Recent events have resulted in some shifts in travel patterns. Many vacationers have the perception that STRs are cleaner and safer than inns and hotels, and as a result, the demand for STRs has remained strong. In addition, heavy pent-up travel demand has resulted in hotels and inns reaching capacity with high rates throughout the summer in non-urban markets. The phenomenon has also caused STR demand to increase as travelers look for lower cost options for overnight stays. These factors have all come together to make many property owners consider offering their homes, or a portion of their homes, to guests.

This brief report provides an overview of the general impact of STRs on local markets. There are several important considerations for policy makers, business owners, and local residents. These include the following:

- The economic benefits to property owners
- How short-term rental guests spend their money while in the area and how that impacts other businesses
- The changes that have taken place with real estate prices as the short-term rental market has matured
- Potential losses in revenue at other businesses if short-term rentals are severely constrained

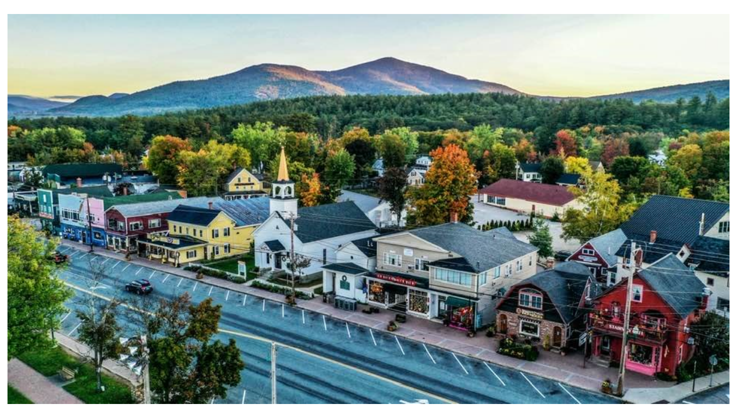
The report reaches several conclusions by using local data, and data from studies of the impact of STRs on local and regional economies.

Current Conditions

There is a great deal of information about the short-term rental markets in both the popular press and in academic journals. For example, an article in Forbes magazine (February, 2020) noted that the "Airbnb effect" on local housing markets sometimes causes concern due to the effects it can have on housing stock, prices, and towns. Airbnb currently has over 7 million listings in 100,000 cities in 220 countries and regions, according to Forbes.

However, things are not entirely encouraging for the market, as is the case with much of the US travel market. There are still restrictions on international travel, and many travelers are fearful of the delta variant and possible COVID-19 exposure and/or infection during travel away from home. In spite of an easing of travel restrictions, both air and rail travel are down significantly from 2019 levels. Projections are that the STR market will not recover to 2019 levels until 2023 (rentalscaleup.com). There was an 11.5% decline in listings in 2020, and in 2021 listings were still below the 2020 offerings. In raw numbers, there were 1,175,437 STRs in America in 2019; 1,039,948 in 2020; and there are 1,138,111 offerings in 2021. The impact of the pandemic is notable and ongoing.

There have been shifts in rentals, however, with consumers opting for larger properties. According to rentalscaleup.com (2021), 35% of summer nights stayed in 2019 were in accommodations that can handle five or more guests. In 2021 that number rose to 54%. There is speculation that this is due to more people staying in smaller markets like the NH Seacoast, the NH mountains, etc. and meeting up with family members. Cities have been avoided recently by many travelers due to restrictions and fear of the virus. Secondary locations have benefitted greatly as a result, and that includes a great deal of northern New England. This is clear in the data, which shows an increase in STR bookings of over 40% for small cities and rural areas as well as coastal and mountain destinations. Cities, on the other hand, saw a *decline* of 46% for advanced bookings for the summer of 2021. The expectation is that city travel will recover gradually and the markets will rebalance, with reduced demand in secondary markets.



As supply increases, there will be downward pressure on rates, however, and that may slow the increase in unit availability. New Hampshire may see a decline in STR business, if, and when cities become locations of choice for vacationers once again. The resolution of the COVID-19 pandemic and the attractiveness of reopened cities will certainly have an impact on where tourism dollars are directed in the coming years.

At the same time, there is an expectation that the average daily rate for STRs will decline in 2022 from 2021 levels as travelers start booking smaller, urban stays instead of the small town and more rural rentals for five or more guests, as was seen in the summer of 2021. This fits with the expectation that we will see increased demand in urban areas in 2022, with steady or slightly lower demand in other areas. As theater shows return, museums open, and city activities gradually expand, travelers will return as well. However, do not expect urban demand to return to 2019 levels until 2022-23 (rentalscaleup.com, 2021). AirDNA data (rentalscaleup.com, 2021) shows us where STR guests were staying in the summer of 2021 based on bookings.

U.S. Short-term Rental Forecast (2019 – 2022)

Metric	2019	2020	2021 F	2022 F
Available Listings	1,175,437	1,039,948	1,138,111	1,370,903
Listings, % Change	11.0%	-11.5%	9.4%	20.5%
Demand, % Change	20.9%	-16.1%	27.5%	23.4%
Occupancy	53.5%	53.2%	58.9%	57.9%
Average Daily Rate	$ 214.30	$ 233.84	$ 248.06	$ 230.33
ADR, % Change	1.3%	9.1%	6.1%	-7.1%
RevPAR	$ 114.59	$ 124.50	$ 146.22	$ 133.40
RevPAR, % Change	3.8%	8.6%	17.4%	-8.8%

Source: AirDNA

AIRDNA

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*"ADR" in the chart above refers to the average daily rate and "RevPAR" is revenue per available room.

Literature on Housing Prices and STRs

Interestingly, most studies examining an increase in STRs in a market show modest impacts on housing and rental prices. The Wall Street Journal (November 19, 2019) reported on an Oxford Economics five-year nationwide study of Airbnb and VRBO rentals. The findings showed that rental costs only increased by 4.3% and STRs accounted for just 4.7% of the increase (this represents a 0.002% annual increase in rents that could be attributed to STR density).

Housing prices, on the other hand, do show more of a reaction to increases in STR units in a market. During the five-year study window of the Oxford Economics research, home prices rose by about 15%. However, STR density accounted for just 6.7% of the increase (this represents 0.01% of the annual increase in housing costs). Further, a recent study by Barron, et.al. (Harvard Business Review, 2019), found that a one percent increase in STR listings resulted in rental price increases of less that 0.02% and housing price increases of less than 0.03%. This is a very modest effect.

It is important to note that the COVID-19 pandemic has had a much more significant impact on home prices than any influence from STRs based on the extant research. For example, in April the New Hampshire Association of Realtors (https://www.nhar.org/resource/market-data) reported that real estate prices in our state have risen by 12% over the past year, nearly as much as prices increased over the past five years. Carroll county saw an increase of about 13% in roughly the same time frame. This is due in large part to the fact that over 35% of home buyers in northern New England are coming from outside of the New England region. Incredible pressure is being placed on the market at this time.

Considering recent trends, real estate transactions in New Hampshire saw an increase in prices of 24% from 2015-2019. During the same timeframe, Carroll County witnessed an 28% increase in prices, while Conway prices increased by 26%, not inconsistent with what one might expect based on the surrounding area and the state. Any impact of STRs on real estate prices appears to be minimal based on a cursory review of transaction data. However, other factors may have a much more significant impact.

For example, there is considerable research that shows that the income of local residents, and in the case of Conway, out-of-state residents who own a second home, is more impactful in housing prices than are STRs. Garcia (2019), in a report written for the US Federal Reserve, writes that there is evidence that up to 15% of home price increases are driven by second home buyers, with 55% of the variance in home prices explained by second home ownership rates.

Unemployment is also a factor. Unemployment and second home ownership account for 83% of the increase in housing sale prices. The pandemic is causing higher income families to move to New Hampshire, and with our low unemployment rate, there is little doubt that much of the recent price increase is driven by factors other than STRs. The tremendous real estate price increases of 2020-2021 are almost certainly not driven by STRs, but by pandemic related activity, which was seen nationwide.

Finally, market data shows that Conway, relative to other mountain towns in the United States, remains affordable (SnowBrains, 2021). As the table below illustrates, Conway ranks second in the nation among mountain towns with respect to real estate prices.

Town	Average home cost
Poconos, PA	$199,797
Conway, NH	$237,708
Maggie Valley, NC	$253,851
Big Bear, CA	$312,662
Granby, CO	$354,721
Durango, CO	$397,124
South Lake Tahoe, CA	$400,288
Taos, NM	$401,864
Silverthorne, CO	$428,367
Mammoth Lakes, CA	$438,686

Conway Housing Units, Prices, and STRs

In 2021 there are about 7000 total housing units in Conway based on information provided by the Town Manager as well as the NH state government website (Mr. Thomas Holmes, via email, September 2021; https://www.nhes.nh.gov/elmi/products/cp/profiles-htm/conway.htm). About half of the property tax bills for Conway are sent to out-of-state addresses, suggesting that many homes in the town are second homes and/or vacation homes that are not owned by full-time residents of Conway.

Of the total housing units in Conway, approximately 500 are short-term rentals, or about 10% of single family housing units, based on information provided by Airbnb and Mr. Holmes. Because units cycle in and out of use, it is likely that the active listings for STRs in Conway is less than 500 units, on average. Airbnb data further indicates that the typical nightly rental rate is about $350, and that the average number of guests is five. The typical STR in Conway is booked only 70 nights per year, on average. This equates to a total of 35,000 “room nights,” and a total of 175,000 visitors based on an average occupancy of five guests.

Notably, Mr. Holmes estimates that there are presently 1696 hotel, motel, and B&B rooms in Conway based on the 2019 property tax reevaluation. There are 200-300 rooms currently under construction with unknown completion dates. Based on currently operating hotels, inns, B&Bs and STRs in Conway, the STR units comprise about 23% of the units available to tourists in Conway. On average, there are five guests in each STR (proprietary Airbnb data provided by the company via email) vs. about two to three for a hotel, motel, or inn. Given the nature of travel to the Conway area, using an average of three guests per room overall to allow for families, who often have four guests per room, is prudent.

With this data in mind one would expect to find a total of 5088 guests in hotels, motels, and B&Bs and 2500 guests in STRs in Conway. STR rentals during peak travel times amount to 33% of all guests in Conway. If STRs were to disappear, it would be impossible for the community to accommodate the displaced guests, and travel dollars would go elsewhere. The economic impact of STR guests is significant, as illustrated in more detail in the following section.

The Hospitality/Tourism Multiplier/Tourism Impact

When tourists visit a community, they spend money at other businesses, benefitting those businesses, their employees, and the community. There are three types of expenditures that impact local economies. The first is what is called a *direct expenditure*. This is money that is spent on goods and services at hotels, shops, and other tourism related activities. This is the initial spending by a tourist that creates revenue.

The second expenditure type is *indirect tourism expenditure*. This includes the transactions that result from direct expenditures. For example, purchases of food and beverages by a hotel to service guests falls into this category.

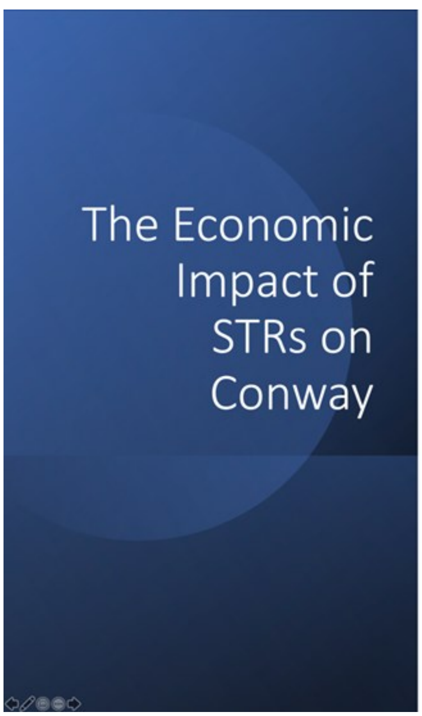
The third type is *induced tourism expenditure*. Induced expenditures are those related to increased consumption resulting from an increase in direct tourism expenditures. For example, when a restaurant employee goes to a local hair salon, it is an induced tourism expenditure in that the person is employed due to tourism and his/her income comes from tourist expenditures.

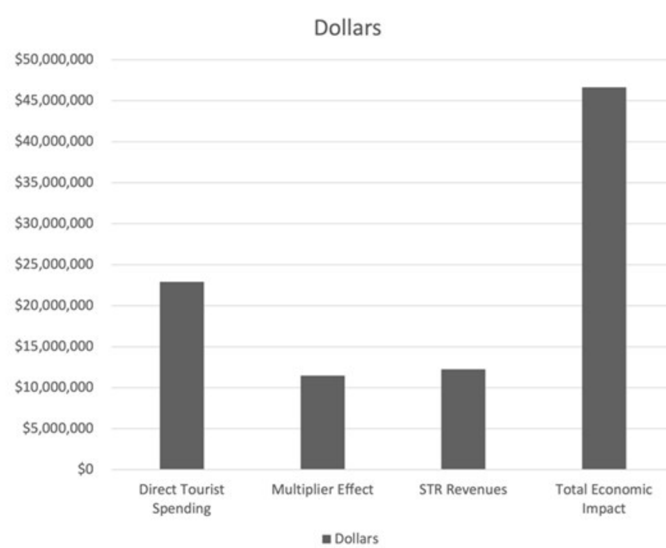
The so-called "Tourism Multiplier" can provide a guide to the economic impact of tourists and it helps to capture all three types of tourism expenditures (direct, indirect, and induced). While the technique is not perfect, it does provide some insight into economic impacts beyond the overnight stay. This is an important consideration for communities when considering STRs in the marketplace.

For New England in general, the tourism multiplier tends to be around 1.60. A study to determine the approximate tourism multiplier specifically for New Hampshire tourism, conducted by graduate students at the University of New Hampshire, found that a reasonable tourism multiplier for our state is about 1.50 (Wiersma, Morris, and Robertson, 2005). Translating this number, for every dollar spent by a tourist, it cycles through the local economy 1.5 times as wages, purchases of supplies and services, etc. The study of New Hampshire is a bit dated, yet it is consistent with more recent research on a national level and based on my experience in the industry the number is solid and, if anything, it is a conservative estimate. .

To determine the impact of tourism and STRs on New Hampshire, one can consider direct spending by visitors and then apply the tourism multiplier to come up with a total estimated impact. In a report written for the NH Department of Business and Economic Affairs, Dean Runyan Associates found that in 2017 the average expenditure of guests, not including accommodation fees, was $301 per party per night, and $131 per person per night (www.visitnh.gov, 2017). It is important to keep in mind that in hotels and inns rooms typically accommodate one to four people. However, STRs typically attract an average of five guests, which would drive the spending per party, per trip considerably higher. With that in mind, it is reasonable to use the $131 figure on a per person, per night basis when trying to determine the economic impact of STR rentals on any New Hampshire community.

Given spending of $131 per guest, per night, and with 175,000 annual STR guests in Conway, the spending of tourists amounts to $22,925,000 on an annual basis. If one factors in the tourism multiplier of 1.50, we see that there is additional economic activity on the order of $11,462,500 that is generated by the spending of STR guests. One can make the case that STRs in Conway generate upwards of $33 million in economic activity each year from guests and the impact of their spending while visiting. This is a tremendous monetary impact for a town and it represents money that is spent on employee salaries and wages, supplies, and the spending of suppliers and employees in the community at other businesses. Clearly, the economic benefit of STRs in Conway is substantial. If we add in the revenue that accrues to the owners of STRs, another $12,250,000 can be added to the overall economic impact, bringing the total to $45-50 million each year.





Conclusion

The growth of the STR market has caused many communities to take notice. STRs are an important economic driver on many levels. Unit owners enjoy revenue from using their property as an STR, either full-time or part-time. In addition, there are other revenues that accrue to communities and businesses where STRs are present. These revenues and profits are enjoyed by local businesses that are patronized by STR guests. These businesses, whether they are shops, restaurants, or attractions, hire people to staff the business for tourism business. They also buy supplies and product from other businesses in the community or region. Cumulatively, STRs have a significant, positive economic impact on their communities.

For Conway, the total economic impact of STRs amounts to more than $45 million annually. Only $12 million of this total accrues to STR owners. The remainder is a direct benefit to the local economy. Further, the impact of STRs on rents and housing prices has repeatedly been shown to be a small fraction of overall price changes. That is true in virtually every market that has been studied.

There is often pressure on elected officials and town officials to heavily regulate STRs. Nevertheless, Airbnb data shows that each STR in Conway is booked for just 20% of available nights each year. STRs are full on weekends during peak season. They are less occupied during the week and are largely vacant during the off season. There is not enough hotel space, nor is there enough under construction, to absorb the additional travel demands if STRs are removed from the marketplace.

Research has shown, repeatedly, that the major impacts on real estate prices and rents in local markets is not driven by the presence of STRs. Rather, the impact comes from other factors such as income levels, unemployment rates, and second home ownership (a major factor in towns like Conway). STRs have a factional impact on home prices and rent, as shown in this report.

In conclusion, the economic impact of STRs is tremendous, and it would be advisable for the community of Conway, and other communities, to carefully consider the unintended consequences that may arise from heavy regulation of STRs.

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