

Economic Impact of
Short Term Rental Properties
in Unincorporated Chelan County

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Summary of Findings

This paper provides an overview of the economic impact of short term rentals (STRs) on Chelan County. It is focused on rentals located in the unincorporated parts of Chelan County, although the impacts are mostly seen on a countywide basis. Key findings include:

- Between September 1, 2019 and August 31, 2020, 1,714 properties in unincorporated Chelan County that were listed by Airbnb, VRBO and/or HomeAway, had at least one night of paid visitor activity.
- Rental rates across the unincorporated areas averaged \$362 per day. The highest average rates were in the areas adjacent to the city of Chelan, at \$491 per night, and the lowest rates were adjacent to Cashmere, at \$133 per night.
- The average STR was rented out for 94 nights in the past year, and the owner earned an average of about \$34,000 in gross rental income.
- The patron of the average STR spent an additional \$560 per party per day, with \$235 spent on food and beverage services, \$101 spent on recreation and \$224 spent on retail.
- Patrons in the Chelan and Manson unincorporated areas were estimated to have spent over \$1,200 per night in addition to their STR rental fees.
- STRs in unincorporated areas generated a total of about \$108 million in direct economic activity, and another \$45 million in indirect activity.
- STRs generated about \$42 million in wages and supported over 1,400 jobs.
- Spending by patrons of STRs in unincorporated areas generated nearly \$820,000 in general sales taxes for Chelan County, which is about 10 percent of total general sales tax collections. That spending also generated about \$605,000 each for the two-county transit agency and for a group of smaller agencies that collect sales tax.
- Rental fees for STRs in unincorporated areas generated \$2.3 million in lodging taxes, which are used to enhance the visitor industry across the county.

Introduction

This paper provides an overview of the economic impact of short term rentals (STRs) on Chelan County. It is focused on rentals located in the unincorporated parts of Chelan County, although the impacts are mostly seen on a countywide basis. Following the data and methodological sections, the paper covers four areas.

STR activity. The scope of STR activity is described for both unincorporated and incorporated areas. This is based on data collected from listings by Airbnb, VRBO and HomeAway. The data covers at least 90 percent of STR properties.

Visitor spending. Estimates are provided for spending by visitors who have rented STRs in unincorporated Chelan County. Spending estimates are provided for (a) food and beverage services; (b) entertainment and recreation activities; (c) retail.

Economic impact analysis. The STR rental activity and visitor spending data are analyzed to derive estimates for total economic impact of STRs located in unincorporated areas. The impacts are countywide, and cover total economic output, labor income and job generation that result from the STR activity in unincorporated areas.

Tax impact analysis. Estimates are provided for the sales tax and lodging taxes generated by STR activity in unincorporated areas that are collected by Chelan County and several agencies that have countywide taxing authority.

Economic impact analyses are based on a number of assumptions, each of which can have a substantial effect on the final estimates. Every effort has been made to use conservative assumptions, so it is likely that the estimates provided here form a lower bound for the actual impacts.

Geographic Scope

This report estimates the economic impact of short term vacation rentals that are located in unincorporated areas of Chelan County. Geographic scope is as follows:

Property counts and activity measures

The 2,639 properties included in the report all had revenue from at least one visitor-night from September 1, 2019 through August 31, 2020. Figure 1 lists basic data for these properties by eight market areas. Cities lie within five of these market areas, and properties are broken out by city and unincorporated areas.

Visitor spending

Visitor spending on lodging and other expenses is estimated only for properties located in unincorporated areas.

Economic impact

The total economic impact of the spending by visitors renting properties in unincorporated areas is estimated for the entire county.

Tax impact

The total tax revenue impact of the spending by visitors renting properties in unincorporated areas is estimated for the Chelan County government and for other countywide agencies that have sales tax authority.

Data Sources and Notes

Short term rental property activity

The data for the number and activity for STR properties comes from AirDNA, a data service that mines information from the websites of Airbnb and VRBO (which includes HomeAway). AirDNA estimates that about 90 percent of STR properties are listed on one or both of these services. AirDNA provides listings of all active properties in a market area, and includes detailed data on rental activity, rental rates, fees and occupancies.

AirDNA listings for Chelan County are divided into eight market areas: Cashmere, Chelan, Entiat, Leavenworth, Malaga, Manson, Peshastin, Wenatchee. The AirDNA listings do not specify whether the unit is located within a city. Each listing includes latitude and longitude coordinates which were used to identify which units are in cities and which are in unincorporated areas.

When reading this report, remember that it does not cover all STRs in Chelan County, but only those listed on Airbnb, VRBO/HomeAway. Thus, it understates activity to some extent.

Visitor spending

No recent visitor spending surveys were identified for all of Chelan County, so it was necessary to develop estimates of spending from other data. Estimates of visitor spending were derived from tourism spending data provided by the U.S. Bureau of Economic Analysis Travel and Tourism Satellite Account. From this data, for three categories—food and beverage service, entertainment and recreation, retail—we calculate the ratio of spending on each category to spending on lodging. These ratios were then applied to the average rental rates for STRs in the unincorporated areas of each market area.

It is assumed, therefore, that visitors will spend about the same proportion of their travel budget on each category, no matter the size of that budget. These ratios are based on national data, so some caution is advised.

Tax revenue impacts

Tax revenue impacts were calculated from sales and lodging tax rates provided by the Washington State Department of Revenue. Tax revenue estimates are based on the following assumptions:

- Chelan County collects sales tax (1.8 percent combined rate) and lodging tax (4 percent) on units located in unincorporated areas, and that tax revenue is listed.
- About 12 percent of taxable retail sales (NAICS 44 and 45) in Chelan County occur in unincorporated areas and are subject to the county's full combined local tax rate of 1.8 percent.
- About 88 percent of taxable retail sales in Chelan County occur in cities, and Chelan County government receives 0.15 percent sales tax on those purchases.
- Several agencies with countywide sales tax authority receive sales tax from all properties.

Economic Impact Methodology

The core of economic impact analysis is the determination of the effect of the injection of new money from outside the geographic area under consideration. Any geographic area—a county in this case—has two kinds of economic activity. “Primary” activity, also known as the economic base, brings new money into the area from outside. That money is then circulated by businesses and consumes within the area in the “secondary” economy.

Economic impact analysis estimates the effects of new activity in the primary economy on the secondary economy. These estimates can be made in a number of ways. This report uses multipliers that are applied to primary activity to generate estimates of total activity (primary plus secondary). The multipliers used in this report were developed by the U.S. Bureau of Economic Analysis for its Regional Input-Output Modeling System (RIMS II) and are specific to Chelan County.

Spending by visitors from outside the county is considered a primary economic activity. Each type of spending—lodging, food and beverage service, entertainment and recreation, retail—has its own multiplier, which is then applied to spending in that category. Estimates are provided for the following economic impacts, as shown below in Figure 3.

- Total output. This is the total dollar value of all economic activity, including the new primary activity and the resulting secondary activity.
- Total labor income. This is the total dollar value of wages paid to workers in primary and secondary activities in the county as a result of the total output.
- Total jobs. This is the total number of new jobs created in the county by both the primary and secondary activities.

Note that the economic impacts on the secondary economy apply to the entire county, whether in incorporated or unincorporated areas, whereas the primary activity being measured consists only of STRs in unincorporated Chelan County.

In calculating the economic impact of STRs, we assume that most of the units are owned by people who do not live in Chelan County. Without a thorough review of ownership we cannot have an accurate count of how many units are owned by local investors, but given the number of units that show large numbers of blocked out dates (when the owners, presumably, are using the unit for their own vacations) we know that the great majority of units are not locally owned. To account for the economic impact of unit ownership, we make three assumptions.

- 10 percent of units are assumed to be owned by Chelan County residents, and all rental revenue from those units stays in the county.
- Locally owned units realize a net of 30 percent of gross rental income after paying management and ownership expenses (interest, taxes, insurance, maintenance).
- For the units not owned by Chelan County residents, we estimate that 14 percent of gross revenue is retained in Chelan County in the form of management fees. All cleaning fees are assumed to be retained in Chelan County.

Short term rental activity 2019-2020

Short term rental activity in Chelan County has grown significantly in recent years. Figure 1 shows activity booked through Airbnb, VRBO and HomeAway for the 12 months from September 1, 2019 through August 31, 2020.

Figure 1 Short Term Rental Activity In Chelan County				
Market Activity* Sept 1, 2019 through August 31, 2020				
Market Area	Units with revenue	Nights occupied	Average daily rate**	Total annual revenue
Cashmere				
City	5	542	\$209	\$113,048
Unincorporated	37	4,396	\$133	\$586,626
Chelan				
City	517	42,260	\$295	\$12,462,893
Unincorporated	146	8,516	\$491	\$4,180,247
Entiat				
City	1	100	\$84	\$8,350
Unincorporated	8	460	\$183	\$84,178
Leavenworth				
City	305	27,268	\$281	\$7,651,520
Unincorporated	1,026	111,612	\$345	\$38,484,226
Malaga	6	569	\$177	\$100,535
Manson	367	24,542	\$488	\$11,970,090
Peshastin	63	6,584	\$296	\$1,951,380
Wenatchee				
City	97	8,111	\$120	\$975,095
Unincorporated	61	5,226	\$214	\$1,120,843
Incorporated total	925	78,281	\$271	\$21,210,906
Unincorporated total	1,714	161,905	\$361	\$58,478,125
Countywide total	2,639	240,186	\$332	\$79,689,031

*Units listed through Airbnb and/or VRBO-HomeAway
 **Includes cleaning fees

Source: AirDNA

65 percent of the listed units that had revenue during the past year were located in unincorporated Chelan County. 67 percent of unit-nights and 73 percent of total revenue were realized in unincorporated areas. The city of Chelan has about 20 percent of the units in the county, with about 80 percent of the Chelan City inventory consisting of apartments, condominium and resort properties.

The most expensive properties are found in the unincorporated areas around Chelan and in Manson. Average daily rents approach \$500 in these areas, with the most expensive property in the county—a 7,200 square foot house on Moonlight Bay—listed for \$2,794 per night, with a cleaning fee of \$995.

The total rental fees (including cleaning fees) collected from the properties in unincorporated Chelan County for the most recent 12 month period add up to \$58.5 million. This is up from \$52 million in calendar year 2019. The Washington State Department of Revenue reported about \$127 million in taxable sales of accommodations (NAICS 721) in all of Chelan County for calendar year 2019. Thus, STR sales in unincorporated Chelan County accounted for about 41 percent of all accommodations sales in the county in 2019. Total countywide sales of STRs in both cities and unincorporated areas accounted for 56 percent of all accommodations sales in the county in 2019.

Estimated Visitor Spending

The economic impact of STRs derives from the combination of rental income and visitor spending. Absent a recent comprehensive visitor spending survey that covers the diverse markets of the county, it is necessary to estimate visitor spending, as noted above. Figure 2 shows estimates of visitor spending by STR patrons in the past 12 months by market area. The estimates cover only spending by parties renting units in unincorporated areas, but most of the spending will take place in cities.

Figure 2 Estimated Visitor Spending by STR Patrons Unincorporated Chelan Co.

Based on Market Activity Sept 1, 2019 through August 31, 2020

Market Area	Average daily rental rate	Estimated daily visitor spending per party			Total daily visitor spending	Total all spending per day
		Food & beverage service	Entertain & recreation	Retail		
Cashmere	\$133	\$87	\$37	\$83	\$207	\$340
Chelan	\$491	\$319	\$137	\$304	\$761	\$1,252
Entiat	\$183	\$119	\$51	\$113	\$284	\$467
Leavenworth	\$345	\$224	\$97	\$214	\$534	\$879
Malaga	\$177	\$115	\$49	\$110	\$274	\$451
Manson	\$488	\$317	\$137	\$302	\$756	\$1,244
Peshastin	\$296	\$193	\$83	\$184	\$459	\$756
Wenatchee	\$214	\$139	\$60	\$133	\$332	\$547
Total all markets	\$361	\$235	\$101	\$224	\$560	\$921

Sources: AirDNA, U.S. Bureau of Economic Analysis, author's calculations

Economic Impact of STR Rental and Visitor Spending

Figure 3 shows the estimated economic impacts of all spending by patrons of STRs. See methodological notes above.

Figure 3 Economic Impact of Short Term Rentals In Unincorporated Chelan Co.
Based on Market Activity Sept 1, 2019 through August 31, 2020

	Annual direct output	Annual total output	Total labor income	Total jobs
Net lodging	\$1,523,976	\$2,076,874	\$480,967	12
Cleaning fees	\$7,678,935	\$11,555,261	\$4,784,744	152
Management fees	\$8,110,159	\$11,052,524	\$2,559,566	65
Food & beverage serv	\$37,991,011	\$54,076,406	\$15,002,650	519
Entertain & recreation	\$16,365,359	\$24,065,260	\$6,367,761	253
Retail	\$36,237,580	\$50,051,346	\$12,951,311	404
Total	\$107,907,020	\$152,877,671	\$42,147,000	1,404

Sources: AirDNA, U.S. Bureau of Economic Analysis, author's calculations

Most of the impact comes from visitor spending, since the great majority of units consist of entire homes that are owned by people living outside of Chelan County. Figure 3 breaks out an estimate of the cleaning fees and management fees, assuming that nearly all of that revenue would stay in Chelan County in the form of wages and fees paid to contractors.

By these estimates, the STRs in unincorporated Chelan County generate around \$153 million in annual economic activity in the county. The U.S. Bureau of Economic Analysis estimates the gross domestic product (GDP) of Chelan County at about \$4.7 billion. The economic activity of STRs in unincorporated Chelan County accounts for about 3 percent of the county's GDP.

To put this in perspective, the direct output of about \$100 million is larger than the county's information sector, transportation sector or durable goods manufacturing sector. It is about equal to the non-durable goods manufacturing sector, which includes the food processing industry.

Figure 3 estimates that spending by patrons of STRs is responsible for over 1,400 jobs. The state Employment Security Department reports about 44,000 covered jobs in the county in 2019, so the STR sector accounts for about 3 percent of the county's employment.

Tax Revenue Impact of Visitor Spending

The economic activity associated with STRs throws off a variety of tax revenue streams. Figure 4 shows sales and lodging tax revenue received by Chelan County for lodging and visitor spending, based on rental activity from September 1, 2019 through August 31, 2020. It also shows the estimated sales tax paid by workers living in the county whose earnings derive from the STR business.

Fig 4 Tax Impacts of Short Term Rentals In Unincorporated Chelan Co.
Based on Market Activity Sept 1, 2019 through August 31, 2020

	Total taxable	County sales tax	Public Transit sales tax	Other Countywide sales taxes	County lodging tax
Unit rental fees	\$58,478,125	\$584,781	\$233,913	\$233,913	\$2,339,125
Visitor spending	\$81,534,555	\$205,467	\$326,138	\$326,138	
Worker spending	\$15,594,390	\$39,298	\$62,378	\$62,378	
Total		\$829,546	\$622,428	\$622,428	\$2,339,125

Sources: AirDNA, Washington State Department of Revenue, author's calculations

The county's 4 percent lodging tax applies to all rentals in the unincorporated areas and goes entirely to the county for its lodging tax fund. Sales tax charged on rentals goes entirely to the county general fund (1 percent) to Link Transit (0.4 percent) and several other countywide special funds (combined 0.4 percent)

Sales taxes on other visitor spending are more complicated. First, not all spending is taxable. Most notably, food purchases at grocery stores are not taxable. The estimates assume that 10 percent of all visitor spending is non-taxable.

Second, although we are considering spending by visitors staying in unincorporated areas, most retail, food service and entertainment spending will occur within city limits and the sales taxes will be remitted to the city. According to the Department of Revenue, about 12 percent of taxable retail sales in Chelan County take place in unincorporated areas, so we attribute 12 percent of regular sales tax revenue (at the 1 percent rate) from visitor spending to Chelan County itself. For the other 88 percent of spending that occurs in cities, counties collect 0.15 percent regular sales tax on those sales.

Sales taxes on visitor spending that are collected by the transit agency and other countywide agencies go entirely to those agencies, each at a rate of 0.4 percent.

In all, spending by visitors to STRs generates about \$829,000 for the county, which is about 10 percent of its sales tax revenue for the year. This spending also generates about \$622,000 for the transit agency and the other agencies combined. Lodging tax should bring about \$2.3 million into the county lodging tax fund.

Conclusion

The short term vacation rental market has emerged as an important source of economic activity in places such as Chelan County that have attractive visitor features and limited hotel properties. They stimulate the market for vacation properties by making such properties more affordable through rental income. While most STR properties are owned by people outside the county, and therefore much of the rental income itself leaves the county, visitor spending is robust and provides hundreds of jobs in the county.

STRs also stimulate the balance of the visitor industry. Spending on STR rentals constitutes over half of countywide accommodation sales, so the spending by patrons of STRs may as much as double the size of the non-accommodation tourism sector. When vacation properties are occupied for more of the year, local retailers, restaurants and other services have a more stable customer base.

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