TOURISM ECONOMICS

The Economic Importance of New Jersey Seasonal Home Rentals and Potential Impact of Imposing a Sales Tax –

Updated Analysis Based on 2014 Rental Season Data

Report prepared for:

The New Jersey REALTORS® Governmental Research Foundation

TOURISM ECONOMICS

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Contents

1 Introduction

Seasonal second homes generate a substantial share of economic output related to both tourism and to the real estate sector in New Jersey. There are more than 118,000 seasonal second homes in New Jersey, including nearly 14,000 in Atlantic County, 49,000 in Cape May County, 30,000 in Ocean County and 10,000 in Monmouth County.

In June 2014, Tourism Economics analyzed the economic importance of New Jersey seasonal home rentals and the potential impact of imposing a sales tax on seasonal home rentals. The analysis found that seasonal second homes throughout New Jersey contributed approximately $4.7 billion in total economic activity statewide, including $1.4 million in labor income, supporting more than 43,000 total jobs in 2013.

A key finding of Tourism Economics' original analysis was that the introduction of a 7% sales tax on the rental of seasonal second homes would have significant impacts on the seasonal home rental market. The sale tax would ultimately translate into reductions in rental income for owners who rent their seasonal homes and higher effective rental rates for renters. As prices rise, renters will take their business to competing destinations in Delaware, Maryland, Virginia, and North Carolina, ultimately leading to reduced demand as well as reduced visitor spending in New Jersey.

The original June 2014 report analyzed survey data from New Jersey REALTORS® covering the 2011-2013 rental seasons. Survey projections for the 2014 rental reason were based on respondents' estimates and forecasts for the 2014 rental season. Tourism economics conducted an additional round of surveys with New Jersey REALTORS® at the end of 2014 to compile actual performance data on the 2014 peak rental season. This current report presents updated projections and economic impacts based on the new survey responses for the 2014 rental season.

2 The Performance and Profile of the NJ Seasonal Rental Market

Tourism Economics, in coordination with the New Jersey REALTORS® Governmental Research Foundation (GRF), distributed an additional online survey at the conclusion of the 2014 rental season. The survey was distributed to New Jersey REALTORS® that manage or represent seasonal rental homes in Cape May, Ocean, Atlantic, and Monmouth Counties[1]. Similar to the original study, survey respondents included a wide range of REALTORS®, including some who managed just a few rental properties and others who managed or represented more than 1,000 seasonal rentals statewide. Overall, the survey responses encompassed more than 7,000 properties throughout New Jersey (compared to the nearly 9,300 properties in the original June 2014 survey), representing a 6% sample of the 118,188[2] total seasonal second homes.

2.1 Summary Survey Results

2.1.1 Property Size

Based on summary survey results, we estimate that in 2014 one- to three-bedroom properties represent 63%of seasonal second homes (74,479 homes), four- to five-bedroom properties represent 32% (37,908 homes), and six- or more bedroom properties represent 5% (5,802 homes) of seasonal second homes in New Jersey, as shown in Figure 2.1.

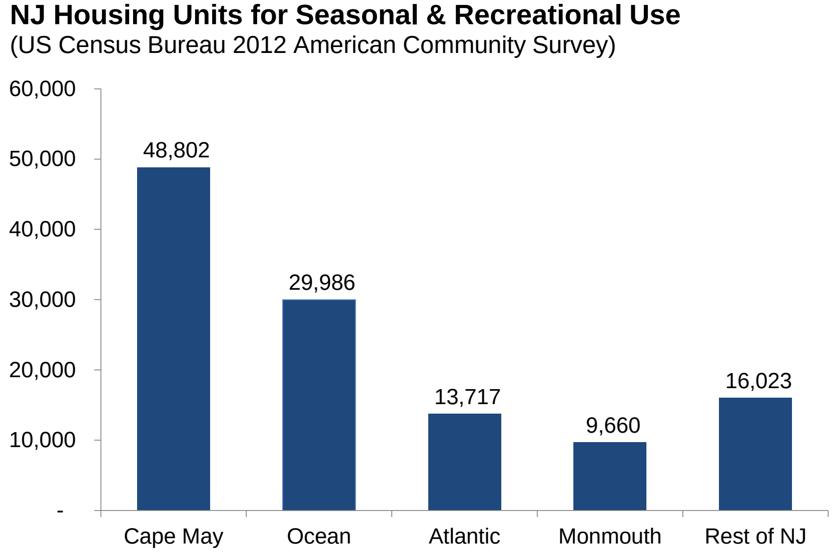
Figure 2.1: New Jersey Seasonal Second Homes, by Number of Bedrooms, 2014

County	1-3 bedrooms	4-5 bedrooms	6+ bedrooms	Seasonal Second Homes
Atlantic	13,717	0	0	13,717
Cape May	22,997	21,833	3,971	48,802
Ocean	21,510	7,729	748	29,986
Monmouth	7,728	1,932	0	9,660
Subtotal	**65,952**	**31,494**	**4,719**	**102,165**
Rest of New Jersey	8,527	6,414	1,083	16,023
Total, New Jersey	**74,479**	**37,908**	**5,802**	**118,188**
% of State Total	**63%**	**32%**	**5%**	**100%**

Source: US Census Bureau, Tourism Economics (2015)

[1] A copy of the survey is included in Appendix A of this report.
[2] US Census Bureau American Community Survey 2012 (1-year estimates)

Figure 2.2: New Jersey Seasonal Second Homes, by County (2012)



Source: US Census Bureau American Community Survey (2014)

2.1.2 Weekly Rental Rates

Figure 2.3 provides a detailed breakdown of the average weekly rental rates in 2014 for seasonal second homes, by month and number of bedrooms.

During the 2014 peak season, one to three-bedroom properties rented for an average of $1,943 per week, while four- to five-bedroom properties and six- or more bedroom properties rented for an average of $3,553 and $5,948 per week, respectively. In the 2014 off-season, one- to three-bedroom properties rented for $1,000 per week, four-to five-bedroom properties rented for $1,792 per week, and six- or more bedroom properties rented for $3,107 per week.

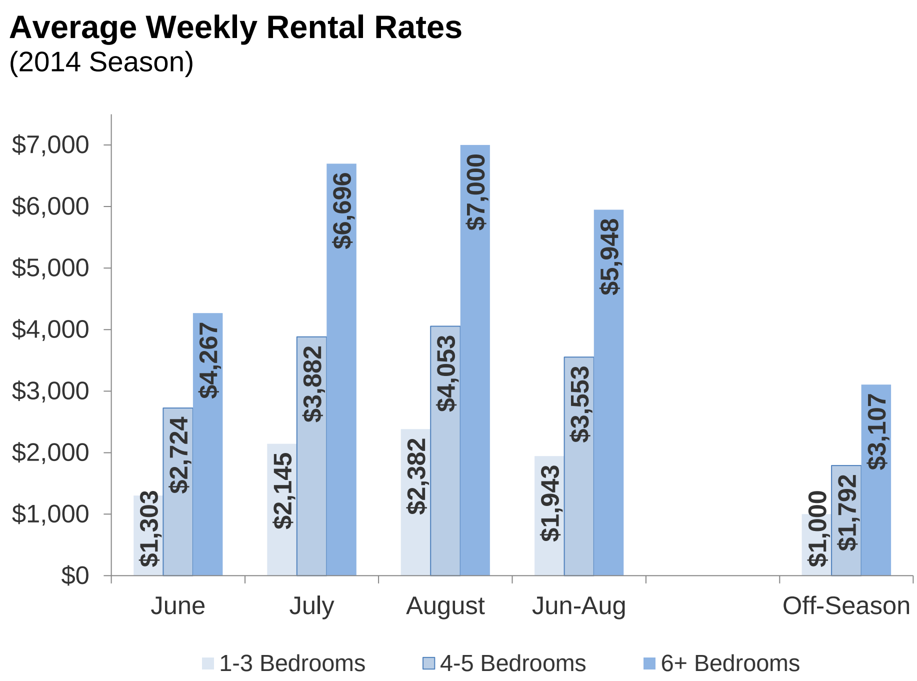
Overall, the weighted average weekly rental rate for all seasonal homes during the 2014 peak season (June to August) was $3,624, while the average weekly rental rate in the off-season was $1,735.

Figure 2.3: New Jersey Seasonal Second Homes – Average Weekly Rental Rates, by Number of Bedrooms and Month, 2014

Month	1-3 Bedrooms	4-5 Bedrooms	6+ Bedrooms	All
June	$1,303	$2,724	$4,267	$2,651
July	$2,145	$3,882	$6,696	$4,005
August	$2,382	$4,053	$7,000	$4,236
Average, June-August	**$1,943**	**$3,553**	**$5,948**	**$3,624**
Off-Season	**$1,000**	**$1,792**	**$3,107**	**$1,735**

Source: Tourism Economics (2015)

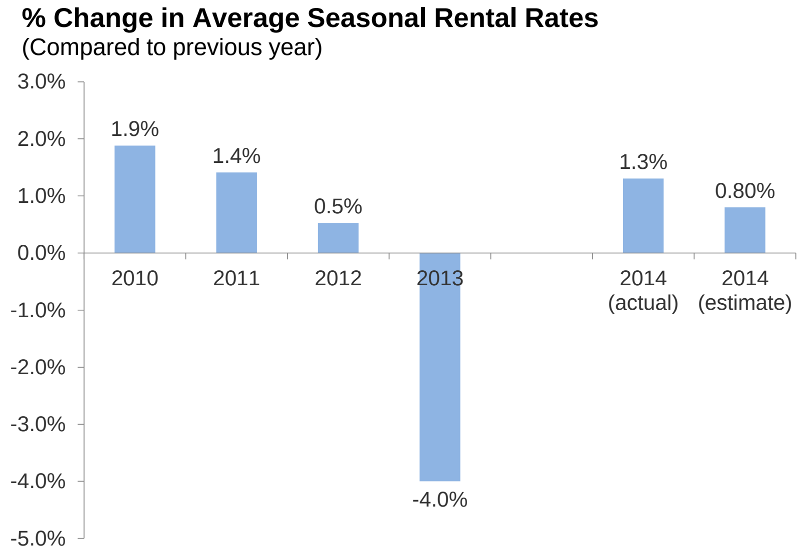
Figure 2.4: New Jersey Seasonal Second Homes – Average Weekly Rental Rates, 2014



Source: Tourism Economics (2015)

Respondents were asked to estimate the average change in seasonal rental rates for the 2014 rental season. On average, based on updated survey data, responses indicate that rental rates increased 1.3% in 2014. This is in line with respondents' forecast of 0.8% at the beginning of the 2014 season. Figure 2.5 summarizes survey responses from the original survey in June 2014 and updated survey data from December 2014. As shown, the largest increase over the past five years occurred in 2010, when rates rose 1.9% compared to 2009 prices.

Figure 2.5: New Jersey Seasonal Second Homes – Change in Average Seasonal Rental Rates, 2010-2014



Source: Tourism Economics (2015)

2.1.3 Peak Weeks Unrented

Figures 2.6 and 2.7 summarize the average number of un-rented weeks per seasonal second home during the peak season from 2011 to 2014. According to survey responses from June 2014, seasonal second homes averaged 3.88 un-rented weeks during peak season in 2011, 3.63 un-rented weeks in 2012, and 6.44 un-rented weeks in 2013. Based on updated survey responses at the end of 2014, seasonal second homes averaged 5.3 un-rented weeks in 2014. Properties averaged 2.5 un-rented weeks in June, 1.17 un-rented weeks in July, and 1.63 un-rented weeks in August.

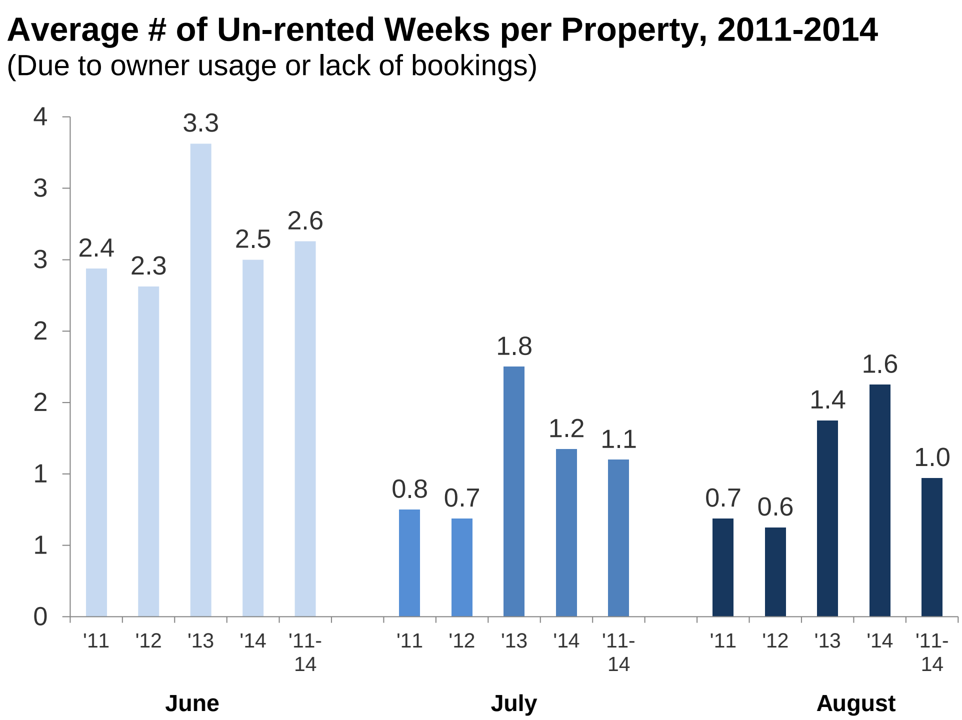
Between 2011 and 2014, seasonal second homes averaged 2.63 un-rented weeks in June, 1.10 un-rented weeks in July, and 0.97 un-rented weeks in August, resulting in a total of 4.70 un-rented weeks during the entire peak season from June to August.

Figure 2.6: New Jersey Seasonal Second Homes – Average Number of Unrented Weeks per Property (Peak Season, 2011-2014)

Year	June	July	August	June - August
2011	2.44	0.75	0.69	**3.88**
2012	2.31	0.69	0.63	**3.63**
2013	3.31	1.75	1.38	**6.44**
2014	2.50	1.17	1.63	**5.30**
2011-2014 Average	**2.63**	**1.10**	**0.97**	**4.70**

Source: Tourism Economics (2015)

Figure 2.7: New Jersey Seasonal Second Homes – Average Number of Unrented Peak Season Weeks per Property (2011-2014)



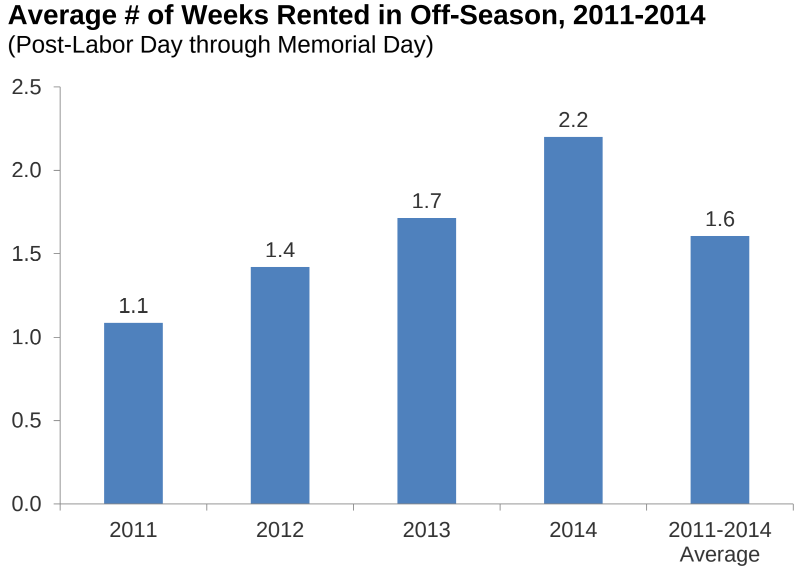
Source: Tourism Economics (2015)

2.1.4 Off-Peak Weeks Rented

The survey also included a question on the average number of rented weeks per property during the off-season between Labor Day and Memorial Day in 2014. As shown in Figure 2.8, seasonal second homes averaged approximately 2.2 rented off-season weeks in 2014. Based on previous survey responses, seasonal second homes averaged 1.1 rented off-season weeks in 2011, 1.4 in 2012, and 1.7 in 2013.

Between 2011 and 2014, seasonal second homes averaged 1.6 rented weeks during the off-season.

Figure 2.8: New Jersey Seasonal Second Homes – Average Number of Rented Off-Season Weeks per Property (2011-2014)



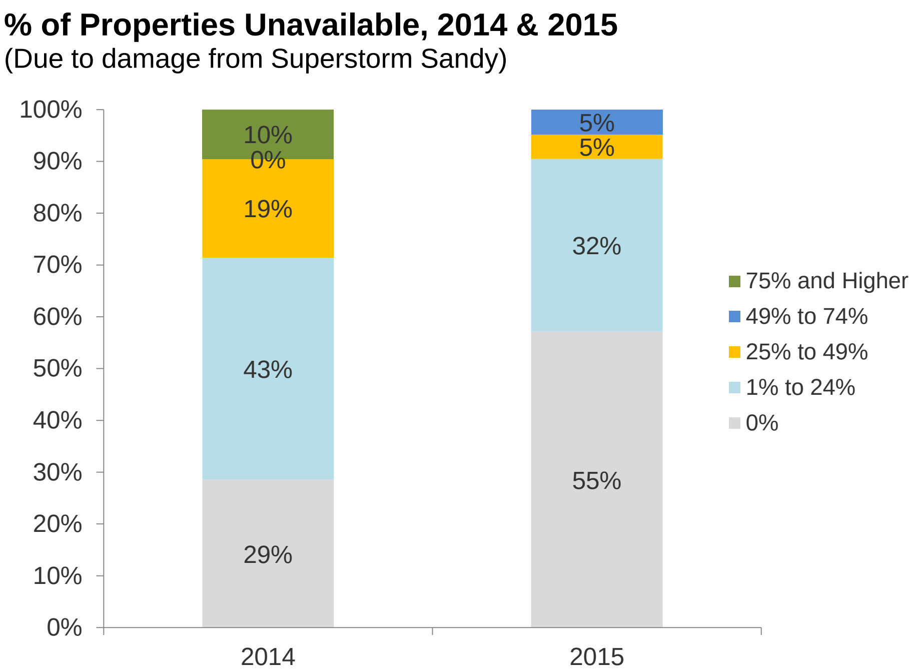
Source: Tourism Economics (2015)

2.1.5 Effects of Superstorm Sandy

Survey respondents provided estimates of the percentage of their seasonal rental properties that were unavailable in 2014 and are expected to be unavailable in 2015 due to damage from Superstorm Sandy. As shown in Figure 2.9, 19% of respondents indicated that 25% to 49% of their rental properties were damaged by Superstorm Sandy and unavailable for rental in 2014. An additional 10% of respondents indicated that 75% or more of properties were affected by Superstorm Sandy in 2014.

Superstorm Sandy's effects on the seasonal second home market will be lower in 2015. Approximately 55% of respondents estimated that 0% of properties would be unavailable and 32% of respondents estimated that 1% to 24% of properties would be unavailable in the 2015 rental season due to Superstorm Sandy.

Figure 2.9: New Jersey Seasonal Second Homes – % of Properties Unavailable Due to Damage from Superstorm Sandy, 2014 & 2015



Source: Tourism Economics (2015)

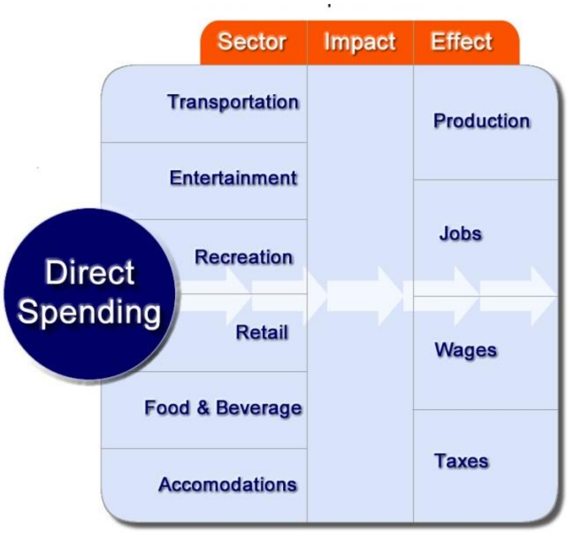
3 Baseline Economic Impacts

3.1 Economic Impacts Defined

Seasonal second homes in New Jersey generate substantially more economic activity than ordinary real estate. In addition to generating rental revenue, seasonal second homes also attract renters & visitors who spend money across various economic sectors in local economies, including restaurants, retail, recreation, and transportation. This spending will generate additional economic activity as it ripples through the local and state economies.

The economic impacts of rental revenue generated by seasonal second homes, as well as the impacts of renters' and visitors' spending at local establishments was estimated using a regional Input-Output (I-O) model based on IMPLAN (www.implan.com) models. IMPLAN is recognized as one of two industry standards in local-level I-O models. An I-O model represents a profile of an economy by measuring the relationships among industries and consumers. For example, an I-O model tracks the flow of a visitor's restaurant expenditures to wages, profits, capital, taxes and suppliers. The supplier chain is also traced to food wholesalers, to farmers, and so on. In this way, the I-O model allows for the measurement of the direct and indirect sales generated by a restaurant meal. The model also calculates the induced impacts of tourism. These induced impacts represent benefits to the economy as employees of tourism sectors spend their wages in the local economy, generating additional output, jobs, taxes, and wages. Figure 3.1 provides an illustration of how spending flows through an economic impact model.

Figure 3.1: Illustration of Economic Impact Model Flow

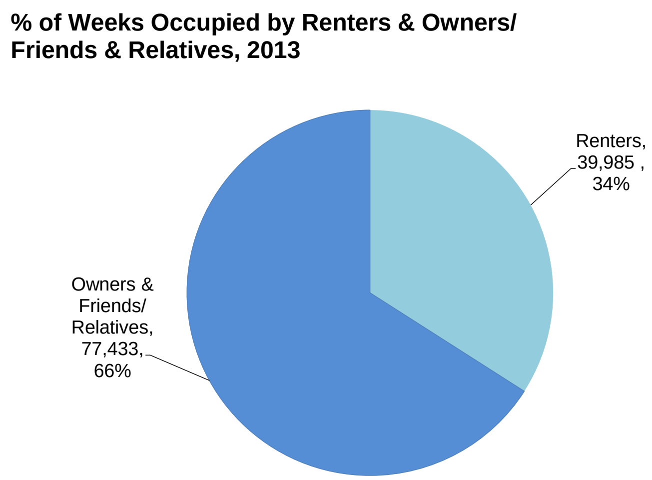


The following updated economic impact analysis is based on updated survey responses which reflect actual data for the 2014 peak rental season.

3.2 Rental Revenue

Rental revenue for the 2014 season represents the first main component of the direct impact of seasonal second homes. Based on data in D.K. Shifflet & Associates' (D.K. Shifflet) 2013 New Jersey Overnight Leisure Visitor Profile, an estimated 34% of available weeks for seasonal second homes in New Jersey are rented for revenue, while the remaining weeks are occupied by owners or friends and relatives of owners and thus do not generate any rental revenue.

Figure 3.2: New Jersey Seasonal Second Homes – % of Weeks Occupied by Renters and Owners/Friends & Relatives, 2013



Source: Tourism Economics (2015)

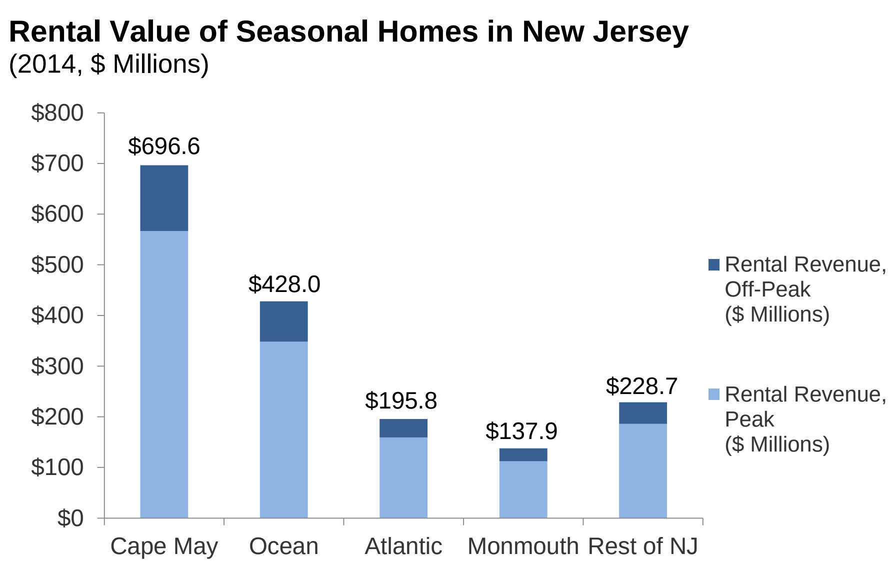
Figure 3.3: New Jersey Seasonal Second Homes – Peak and Off-Peak Rental Revenue, 2014 (Housing Units and $ Millions)

County	All Seasonal Homes, 2014	Rented Seasonal Homes, 2014	Rental Revenue, Peak, 2014 ($ Millions)	Rental Revenue, Off-Peak, 2014 ($ Millions)	Total Rental Revenue, Peak & Off-Peak, 2014 ($ Millions)
Atlantic	13,717	4,572	$159.3	$36.5	$195.8
Cape May	48,802	16,267	$566.9	$129.7	$696.6
Ocean	29,986	9,995	$348.3	$79.7	$428.0
Monmouth	9,660	3,220	$112.2	$25.7	$137.9
Subtotal	**102,165**	**34,055**	**$1,186.7**	**$271.5**	**$1,458.2**
Rest of NJ	16,023	5,341	$186.1	$42.6	$228.7
Total, New Jersey	**118,188**	**39,396**	**$1,372.8**	**$314.1**	**$1,686.9**

Source: Tourism Economics (2015)

Based on average weekly rental rates provided by survey respondents, the equivalent of 40,000 rented seasonal homes in 2014 generated nearly $1.4 billion in rental revenue during the peak season and $314.0 million in rental revenue during the off-peak season, resulting in an annual total of more than $1.7 billion. Total peak and off-peak rental revenue amounted to approximately $195.8 million in Atlantic County, $696.6 million in Cape May County, $428.0 million in Ocean County, and $137.9 million in Monmouth County, as shown in Figure 3.3

Figure 3.4: Rental Value of Seasonal Homes in New Jersey, 2014 ($ Millions, by County)



Source: Tourism Economics (2015)

3.3 Visitor Spending (Renters & Owners)

The second main component of the direct impact of seasonal second homes includes spending by renters, owners, and friends and relatives of owners at local establishments, including restaurants, retailers, entertainment and recreation venues, and transportation. According to D.K. Shifflet, in 2013, overnight leisure visitors to New Jersey spent an average of $107 per person per day, not including the cost of room and board. This $107 in spending included $24.42 on transportation, $29.70 on food, $15.58 on shopping, $31.42 on entertainment, and $5.94 in miscellaneous expenses. We assume similar spending figures for 2014.

Based on survey data, as well as data from D.K. Shifflet's 2013 Overnight Leisure Visitor Profile, we estimate that there were more than 1.6 million person stays by renters and 6.1 million person stays by owners and friends or relatives of owners at seasonal second homes in 2014.

Based on average spending of $107 per person per day, renters and owners spent a total of $823.4 million at local businesses and establishments during their stay at seasonal second homes in 2014.

Figure 3.5: Person Stays at Seasonal Second Homes & Total Spending, 2014
(Person Stays and $ Millions)

Region	Person Stays at Seasonal Second Homes - Renters	Person Stays at Seasonal Second Homes – Owners /Friends & Relatives	Total Person Stays at Seasonal Second Homes	Total Spending ($ Millions)
Shore	368,950	2,569,925	2,938,874	$315.0
Southern Shore	1,085,384	2,310,604	3,395,988	$364.0
Greater Atlantic City	156,612	1,190,251	1,346,863	$144.4
Total	**1,610,946**	**6,070,780**	**7,681,726**	**$823.4**

Source: Tourism Economics (2015)

3.4 Total Economic Impact of Seasonal Properties

Sections 3.2 and 3.3 outlined the two main components of the direct economic impacts attributable to seasonal second homes. As shown in Figure 3.6, total direct economic impacts amount to more than $2.5 billion, including $1.7 billion in rental revenue and $0.8 billion in spending by renters and owners at local business and establishments.

Figure 3.6: Summary Direct Economic Impacts of Seasonal Second Homes, 2014 ($ Millions)

Direct Economic Impacts	Amount ($ Millions)
Rental Revenue	$1,686.9
Renter/Owner Spending	$823.4
Total Direct Economic Impacts	**$2,510.3**

Source: Tourism Economics (2015)

As described in Section 3.1, these direct economic impacts of seasonal second homes will generate additional economic impact as they ripple through the regional and statewide economies and generate economic activity for downstream suppliers. We estimate that direct impacts of $2.5 billion generate $2.6 billion in indirect and induced expenditures, resulting in a total economic impact of $5.1 billion. This total economic impact of $5.1 billion includes $1.5 billion in total labor income, supporting nearly 47,000 total jobs.

Figure 3.7: Total Economic Impacts of Seasonal Second Homes, 2013 (Total Jobs and $ Millions)

Description	Impacts of Rental Revenue	Impacts of Renter/Owner Spending	Total Impacts
Direct Impact	$1,686.9	$823.4	$2,510.3
Indirect & Induced Impacts	$1,687.76	$880.80	$2,568.6
Total Economic Impact ($ Millions)	**$3,374.7**	**$1,704.2**	**$5,078.8**
Direct Jobs	19,896	5,519	25,415
Indirect & Induced Jobs	12,274	8,883	21,157
Total Job Impact	**32,170**	**14,402**	**46,572**
Direct Labor Income	$544.5	$233.5	$778.0
Indirect & Induced Labor Income	$455.5	$257.9	$713.4
Total Labor Income Impact ($ Millions)	**$1,000.0**	**$491.4**	**$1,491.4**

Note: Total Economic Impacts include Total Labor Income. Jobs include full-time and part-time jobs.

Source: Tourism Economics (2015)

4 Baseline Fiscal (Tax) Impacts

The economic impacts of seasonal second homes, including those attributable to rental revenue and renter/owner spending in local economies, also generate significant annual fiscal (tax) impacts.

As shown in Figure 4.1, annual ongoing state and local taxes amount to $575.8 million. This annual tax impact includes $205.3 million in sales tax revenue, $40.8 million in personal income taxes, and $239.8 million in property taxes.

Figure 4.1: Total Fiscal (Tax) Impacts of Seasonal Second Homes, 2014 ($ Millions)

Tax Description	Amount ($ Millions)
Federal Taxes Subtotal	**$416.9**
Corporate	$102.1
Indirect Business	$64.1
Personal Income	$111.3
Social Security	$139.4
State and Local Taxes Subtotal	**$575.8**
Corporate	$24.1
Personal Income	$40.8
Sales	$205.3
Lodging	$18.2
Local	$6.2
State	$12.0
Property	$239.8
Excise and Fees	$44.9
State Unemployment	$2.6
Total Taxes	**$992.7**

Source: Tourism Economics (2015)

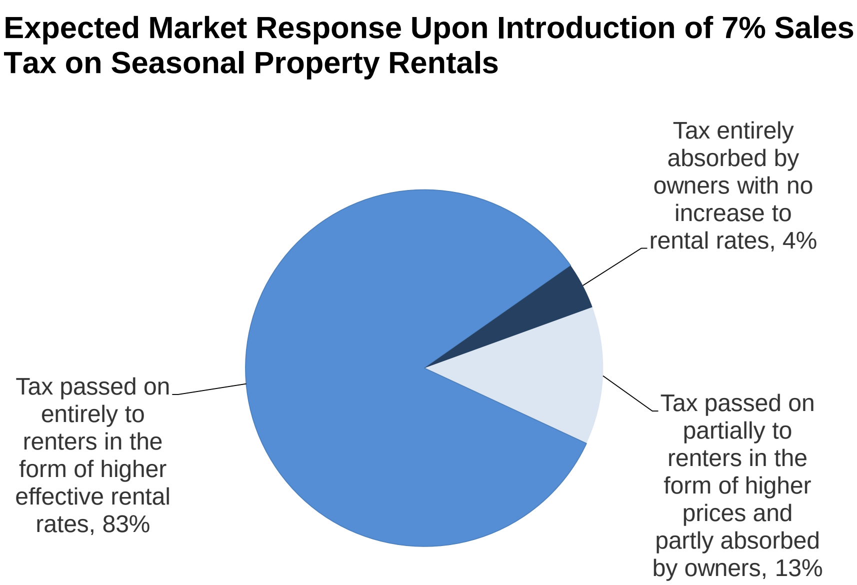
5 Proposed Sales Tax on Rentals

The proposal of a seven percent (7%) sales tax on seasonal home rentals raises a number of questions regarding the impact and overall net effect of the tax on the seasonal rental market and its statewide economic and fiscal impacts. While the tax would generate new tax revenues for state and local governments, it would also represent an increased cost to renters, potentially reducing rental demand and creating a competitive advantage for competing destinations in Delaware, Maryland, Virginia and North Carolina.

In order to better understand the potential impacts of the proposed tax, the survey asked REALTORS® how they felt the market would respond to the introduction of a 7% sales tax. If the 7% sales tax were introduced, the tax could 1.) be passed on entirely to renters in the form of higher rental rates, 2.) be entirely absorbed by owners, resulting in no increase in rental rates, or 3.) partially absorbed by owners and partially passed on to renters in the form of higher rental rates.

Figure 5.1 summarizes REALTORS®' survey responses and how they predict the market would react to the introduction of a 7% sales tax. The majority of REALTORS® (83%) felt that the entire tax would be passed on to renters in the form of higher rents. Approximately 13% of REALTORS® felt that the tax would be partially absorbed by owners and partially passed on to renters. Just four percent (4%) of survey respondents felt that owners would completely absorb the tax and not increase rental rates.

Figure 5.1: Expected Market Response to Introduction of 7% Sales Tax on Seasonal Second Homes in New Jersey (2014)



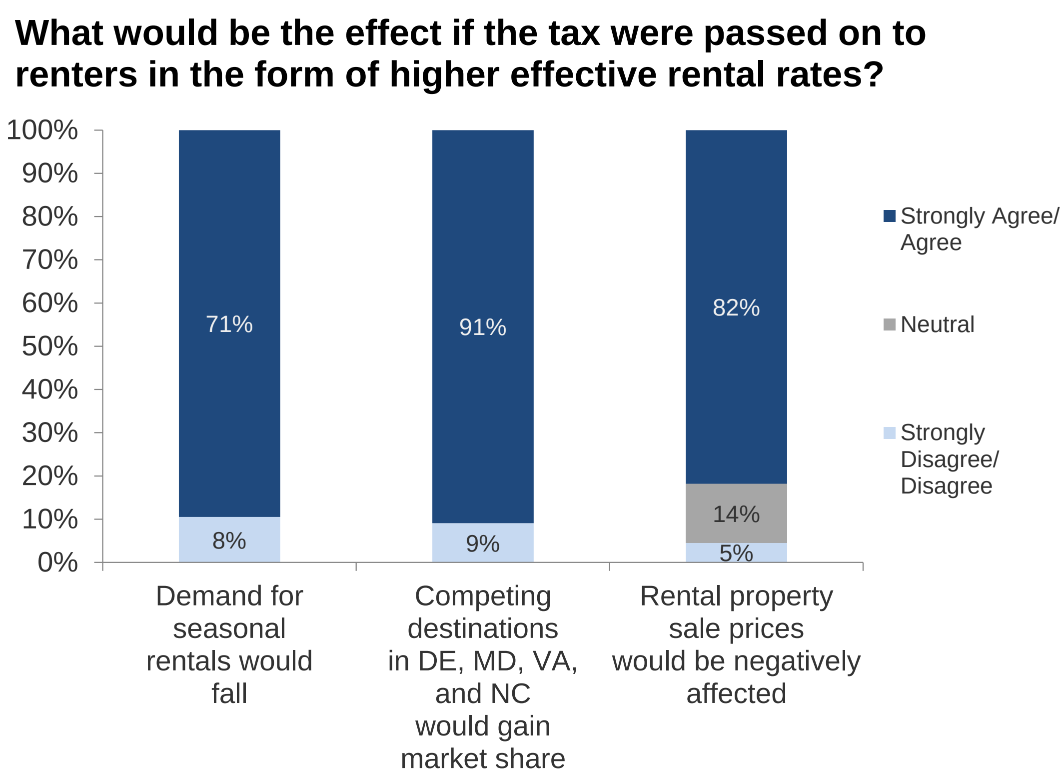
Source: Tourism Economics (2015)

As a follow up question, respondents were asked what they would expect if the proposed sales tax were passed on to renters in the form of higher effective rental rates. Respondents indicated whether they agreed or disagreed with the following outcomes:

- Demand for seasonal rentals would fall
- Competing destinations in Delaware, Maryland, Virginia, and North Carolina would gain market share
- Rental property sale prices would be negatively affected

As shown in Figure 5.2, the vast majority of survey respondents expected negative outcomes if the sales tax were passed, resulting in higher effective rental rates. Approximately 71% of survey respondents either agreed or strongly agreed that demand for seasonal rentals would fall. More than 91% of respondents felt that competing destinations in DE, MD, VA, and NC would gain market share, and 82% of respondents expected rental property sale prices would be negatively affected.

Figure 5.2: Expected Effect if Proposed 7% Sales Tax were Passed on to Renters in the Form of Higher Effective Rental Rates (2014)



Source: Tourism Economics (2015)

5.1 Price Elasticity – Reduced Demand & Lost Revenue

Based on economic theory, price elasticity of demand is a measure that shows the change in quantity demanded of a good or service in response to a change in price. In the case of seasonal second home rentals, price elasticity of demand is the change in rental demand resulting in a change in rental price.

In 2010, Tourism Economics conducted in-depth research on the price elasticity of demand in the hotel industry. The research focused on the change in hotel room demand resulting from changes in prices (ADR or average daily rates), by chain scale, for bookings between 1986 and 2010[3]. Figure 5.3 summarizes the study's findings on price-demand elasticity estimates.

Figure 5.3: Price-Demand Elasticity Estimates, by Chain Scale

Chain Scale	Price-Demand Elasticity Estimates
Luxury	-0.50
Upper Upscale	-0.26
Upscale	-0.09
Upper Midscale	-0.45
Midscale	-0.32
Average	**-0.32**

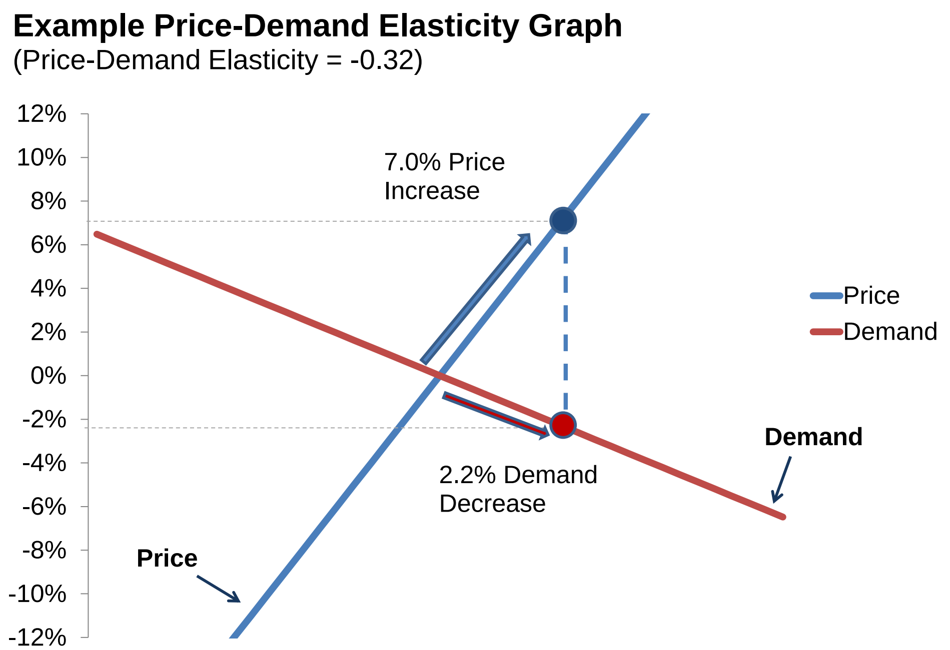
Source: Tourism Economics (2015)

The luxury hotel chain scale was the most elastic chain scale, with a price-demand elasticity of -0.50. In other words, a 1.0% price increase results in a 0.5% decrease in demand. Overall, the average price-demand elasticity across all hotel chain scales was -0.32. Due to market and consumer similarities, we assume that the seasonal home market in New Jersey has a similar price-demand elasticity of -0.32.

Based on the estimated price elasticity of demand of -0.32, if a seven percent (7%) tax were passed on entirely to renters, ultimately leading to a 7.0% *increase* in rental prices, demand would *decrease* by more than 2.2%. Figure 5.4 provides a graphical representation of the relationship between price and demand in the New Jersey seasonal home rental market, given the estimated price-demand elasticity of -0.32.

[3] Data on hotel bookings was provided by Smith Travel Research

Figure 5.4: Example Graph of Price-Demand Elasticity in the New Jersey Seasonal Home Rental Market (Price-Demand Elasticity = -0.32)



Source: Tourism Economics (2015)

5.2 Impacts on Revenue and Demand

5.2.1 Owners Absorb Sales Tax – Reduced Rental Income

As previously shown in Figure 5.1, four percent (4%) of survey respondents indicated that they expected the % sales tax would be entirely absorbed by owners, with no Increase to rental rates. An additional 13% of respondents indicated they expected the tax would be passed on partially to renters in the form of higher prices and partly absorbed by owners of the seasonal homes. Assuming owners absorb the entire 7% sales tax, this would result in a reduction in owners' rental income. However, since the owners are absorbing the entire "cost," the sales tax would not lead to any reductions in demand since the renters are effectively paying the same rental rate as they were prior to the introduction of the sales tax.

Based on the survey response data, we assume that 4% of seasonal home owners who rent their property will bear the 7% sales tax, ultimately reducing their rental income. Based on current demand levels and rental rates, five percent of owners absorbing a 7% sales tax would result in a reduction in rental revenue of $4.7 million.

5.2.2 Renters Absorb Sales Tax – Increased Prices & Reduced Demand

As described in Section 5.1, if owners passed the entire sales tax on to renters in the form of higher effective rental rates, the rules of price-demand elasticity suggest that increased prices would result in reduced demand, as renters search for rental properties in competing destinations in Delaware, Maryland, Virginia, and North Carolina.

Based on the survey data outlined in Figure 5.1, we assume that 83% of seasonal home owners pass the entire 7% sales tax on to renters (and raise their effective rental rates by 7%), ultimately leading to a 2.2% reduction in demand for these home owners. Based on current levels of demand and rental rates, increased rental rates would result in a demand loss of nearly 8,100 peak and off-peak rental weeks, generating $31.8 million in lost revenue.

5.2.3 Renters Partially Absorb Sales Tax – Increased Prices & Reduced Demand

Approximately 13% of survey respondents indicated that the sales tax would be partially absorbed by owners and partially passed on to renters. Based on current rental prices and demand levels, we estimate that the tax partially absorbed by owners and partially passed on to renters in the form of increased prices would result in more than $13 million in total lost revenue.

5.3 Summary Impacts

The introduction of a 7% sales tax would lead to reduced rental income for owners of seasonal homes and would also translate into higher rental prices for renters, who would start searching for alternative rental locations in competing destinations.

Based on survey response data, as well as current demand levels and peak and off-peak rental rates, we estimate that the net impact of a 7% sales tax would be a $49.8 million loss in economic activity. This $49.8 million loss in economic activity includes lost rental income and a reduction in visitor spending resulting from reduced demand from renters in response to higher prices.

6 Economic & Fiscal (Tax) Impacts of a 7% Sales Tax (Updated)

6.1 Economic Impacts

Section 5 outlined the "direct" impacts of a 7% sales tax. According to survey response data, as well as the notion of price-demand elasticity, the introduction of a 7% sales tax would ultimately lead to reduced rental income for owners of seasonal homes, as well as a loss in visitor spending as renters search for seasonal home rentals in competing markets as a result of increased prices. We estimate that the introduction of a 7% sales tax increase would generate a $49.8 million loss in economic activity.

The $49.8 million in lost economic activity will have further negative impacts throughout New Jersey as the economic losses flow through the statewide economy. As shown in Figure 6.1, the $49.8 million in direct economic losses will generate an additional $50.5 million in reduced indirect and induced economic activity, which includes lost business activity for supplier industries, as well as reduced economic activity resulting from a reduction in employee spending in the local economy due to reduced labor income.

The total economic loss amounts to $100.2 million, including $15.6 million in lost labor income, and a reduction in the statewide workforce of more than 900 jobs.

Figure 6.1: Economic Impacts of a 7% Sales Tax on New Jersey Seasonal Home Rentals ($ Millions & Total Jobs)

Description	Impacts of 7% Sales Tax
Direct Impact	-$49.8
Indirect & Induced Impacts	-$50.5
Total Reduced Economic Impact ($ Millions)	**-$100.2**
Direct Jobs	-514
Indirect & Induced Jobs	-419
Total Reduced Job Impact	**-933**
Direct Labor Income	-$29.5
Indirect & Induced Labor Income	$13.9
Total Reduced Labor Income Impact ($ Millions)	**-$15.6**

Note: Total Economic Impacts include Total Labor Income. Jobs include full-time and part-time jobs.

Source: Tourism Economics (2015)

6.2 Fiscal (Tax) Impacts

The reduced economic activity and resulting negative economic impacts would also lead to reductions in federal, state and local tax revenues. As shown in Figure 6.2, total lost tax revenue amounts to $19.7 million, including $11.4 million in lost state and local tax revenue and $8.3 million in lost federal taxes. State and local tax losses include a $4.1 million reduction in sales tax revenue, $0.8 million in lost personal income tax revenue, and $4.8 million in reduced property tax revenue.

Figure 6.2: Fiscal (Tax) Impacts of a 7% Sales Tax on New Jersey Seasonal Home Rentals ($ Millions & Total Jobs)

Description	Amount ($ Millions)
Federal Taxes Subtotal	**$(8.3)**
Corporate	$(2.0)
Indirect Business	$(1.3)
Personal Income	$(2.2)
Social Security	$(2.8)
State and Local Taxes Subtotal	**$(11.4)**
Corporate	$(0.5)
Personal Income	$(0.8)
Sales	$(4.1)
Lodging	$(0.4)
Local	$(0.1)
State	$(0.2)
Property	$(4.8)
Excise and Fees	$(0.9)
State Unemployment	$(0.1)
Total Reduction in Taxes	**$(19.7)**

Source: Tourism Economics (2015)

6.3 Net Impacts

Figure 6.3 summarizes the estimated impacts attributable to the introduction of a 7% sales tax on seasonal home rentals in New Jersey. As shown, the sales tax would lead to more than $100 million in reduced economic activity, including nearly $16 million in reduced labor income.

This lost economic activity would generate nearly $20 million in lost tax revenue, while the 7% sales tax on seasonal rental revenue would generate nearly $116 million in new tax revenues.

Figure 6.3: Summary Impacts of a 7% Sales Tax on New Jersey Seasonal Home Rentals ($ Millions & Total Jobs)

Description	Amount ($ Millions)
Reduced Economic Activity	**($100.2)**
Reduced Labor Income	($15.6)
Reduced Jobs	(933)
Tax Revenue from 7% Sales Tax	$115.9
Lost Tax Revenue from Reduced Economic Activity	($19.7)
Net Tax Gain/Loss	**96.2**

Source: Tourism Economics (2015)

7 Impacts Based on Imputed Rent

The impacts outlined in previous sections of the report have assumed that only a portion (34%) of available rental weeks at seasonal homes in New Jersey are occupied and paid for by renters. The analysis assumes that the remaining available rental weeks (66%) at seasonal homes are used by owners or friends and relatives of owners and therefore do not produce rental revenue.

Imputed rent is the economic theory of imputation applied to real estate: that the value of a good is more a matter what the buyer is *willing* to pay than the cost the seller incurs to create it. In this case, market rents are used to estimate the value to the property owner. More formally, in owner-occupancy, the landlord–tenant relationship is short-circuited. Consider a model: two people, A and B, each of whom owns property. If A lives in B's property, and B lives in A's, two financial transactions take place: each pays rent to the other. But if A and B are both owner-occupiers, no money changes hands even though the same economic relationships exists; there are still two owners and two occupiers, but the transactions between them no longer go through the market. The amount that would have changed hands had the owner and occupier been different persons is called the imputed rent[4].

7.1 Economic Impacts Based on Imputed Rent

Figure 7.1 summarizes the direct economic impacts of the seasonal home rental market in New Jersey based on imputed rent. As shown, total rental revenue amounts to nearly $3.9 billion when based on imputed rent. Combined with $823.4 million in renter/owner spending in the local economy, total direct economic impacts amount to $4.7 billion.

Figure 7.1: Summary Direct Economic Impacts of Seasonal Second Homes Based on Imputed Rent, 2013 ($ Millions)

Direct Economic Impacts (Imputed Rent)	Amount
Rental Revenue	$3,869.0
Renter/Owner Spending	$823.4
Total Direct Economic Impacts	**$4,692.4**

Source: Tourism Economics (2015)

[4] http://en.wikipedia.org/wiki/Imputed_rent

As shown in Figure 7.2, $4.7 billion in direct impacts generate more than $9.4 billion in total economy activity statewide. This statewide economic impact of $9.4 billion includes nearly $2.8 billion in total labor income, supporting more than 88,000 total jobs.

Figure 7.2: Total Economic Impacts of Seasonal Second Homes - Based on Imputed Rent, 2013 (Total Jobs and $ Millions)

Description	Impacts of Rental Revenue	Impacts of Renter/Owner Spending	Total Impacts
Direct Impact	$3,869.0	$823.4	$4,692.4
Indirect & Induced Impacts	$3,871.0	$880.8	$4,751.7
Total Economic Impact ($ Millions)	**$7,740.0**	**$1,704.2**	**$9,444.1**
Direct Jobs	45,632	5,519	51,151
Indirect & Induced Jobs	28,150	8,883	37,033
Total Job Impact	**73,783**	**14,402**	**88,185**
Direct Labor Income	$1,248.9	$233.5	$1,482.4
Indirect & Induced Labor Income	$1,044.6	$257.9	$1,302.5
Total Labor Income Impact ($ Millions)	**$2,293.6**	**$491.4**	**$2,785.0**

Note: Total Economic Impacts include Total Labor Income. Jobs include full-time and part-time jobs.

Source: Tourism Economics (2015)

7.2 Fiscal (Tax) Impacts Based on Imputed Rent

The $9.4 billion in total economic activity (based on imputed rent) will generate significant federal and state and local tax revenues. We estimate that seasonal second homes generate more than $2.0 billion in total tax revenues, including $0.8 billion in federal taxes and nearly $1.2 billion in state and local taxes. State and local taxes include nearly $418 million in sales tax revenue, $83 million in personal income tax revenue, and $488 million in property tax revenue, as shown in Figure 7.3.

Figure 7.3: Total Fiscal (Tax) Impacts of Seasonal Second Homes - Based on Imputed Rent, 2013 ($ Millions)

Description	Amount
Federal Taxes Subtotal	**$847.9**
Corporate	$207.8
Indirect Business	$130.4
Personal Income	$226.4
Social Security	$283.4
State and Local Taxes Subtotal	**$1,171.2**
Corporate	$49.2
Personal Income	$83.0
Sales	$417.5
Lodging	$37.1
Local	$12.6
State	$24.5
Property	$487.7
Excise and Fees	$91.4
State Unemployment	$5.2
Total Taxes	**$2,019.1**

Source: Tourism Economics (2015)

8 Conclusion

The rental market for seasonal second homes is undoubtedly an important economic driver for tourism and real estate in New Jersey. With the majority of seasonal second homes located in Atlantic, Cape May, Ocean, and Monmouth Counties, this rental industry generated more than $5.0 billion in economic activity, $1.5 billion in labor income, and nearly 47,000 total jobs in 2014.

The introduction of a 7% sales tax on the rental of seasonal second homes would have significant impacts on the seasonal home rental market. The sales tax would ultimately translate into reductions in rental income for owners who rent their seasonal homes and higher effective rental rates for renters. As prices rise, renters will take their business to competing destinations in Delaware, Maryland, Virginia, and North Carolina, ultimately leading to reduced demand as well as reduced visitor spending in New Jersey.

Based on updated survey responses at the conclusion of the 2014 rental season, we estimate that the introduction of a 7% sales tax would generate a total economic loss of $100.2 million, including a reduction of $15.6 million in labor income and more than 900 lost jobs.

This economic loss of $100.2 million would also generate losses in tax revenue. We estimate that the economic loss would generate $19.7 million in lost tax revenue, including $8.3 million in reduced federal taxes and $11.4 million in reduced state and local taxes.

9 Appendix

Screenshots of the online survey distributed to New Jersey REALTORS® are included on the following pages.

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Study on the New Jersey Seasonal Rental Market

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The New Jersey Association of REALTORS® Governmental Research Foundation is conducting a study on the economic significance of the seasonal rental market in New Jersey and the risks associated with higher taxes on that industry. Thank you for your participation in this short survey which will provide important input for the study. All of the responses will be kept strictly confidential and only used in aggregate in the economic analysis.

If you have any questions, please contact:
Bruce Shapiro at bshapiro@njar.com or
Michael Mariano at mmariano@oxfordeconomics.com.

About You

Company Name:
Your Name:
Title:
Phone Number:
E-mail address:

How many seasonal rental properties do you manage or represent in each of the following counties? (If a property has more than one rental unit, list the number of units.)

	Cape May	Ocean	Atlantic	Monmouth
1-3 Bedrooms				
4-5 Bedrooms				
6+ Bedrooms				

Comments

What is the average weekly rental rate in each of the following months for the 2014 season? Estimates are fine.

	June	July	August	Off-Season
1-3 Bedrooms				
4-5 Bedrooms				
6+ Bedrooms				

Comments

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Please estimate the increases or decreases in average seasonal rental rates for your properties over the past five years.

	% change over prior year
2014 (compared to 2013)	
2013 (compared to 2012)	
2012 (compared to 2011)	
2011 (compared to 2010)	
2010 (compared to 2009)	

Comments

What percentage of your OWNERS live in New Jersey?

	%
% New Jersey Owners	

What percentage of your RENTERS live in New Jersey?

	%
% of New Jersey Renters	

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What is the average number of weeks that were un-rented per property, either because of owner usage or lack of booking in 2011, 2012, and 2013? Estimates are fine. (Do not include homes under construction or repair.)

	June (Including Memorial Day)	July	August (Including Labor Day)
2013			
2012			
2011			

Comments

What is the average number of weeks per property that were rented in the off-season (post Labor Day through pre-Memorial Day) in each of the past three years? Estimates are fine.

2013	
2012	
2011	

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What percentage of rental properties would you estimate to be unavailable due to damage from hurricane Sandy?

	rentals unavailable
2014	
2013	

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What is the average commission rate that your company receives for a seasonal rental?

What are the average fees your company receives in addition to commission rates for other services per weekly rental? Please describe.

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Study on the New Jersey Seasonal Rental Market

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How would you expect the market to respond to the introduction of a 7% sales tax on seasonal property rentals?

- The tax would be entirely absorbed by owners with no increase to rental rates
- The tax would be passed on entirely to renters in the form of higher effective rental rates
- The tax would be passed on partially to renters in the form of higher prices and partly absorbed by owners

If the tax were passed on to renters in the form of higher effective rental rates, what do you think the effect would be?

	strongly disagree	disagree	neither agree nor disagree	agree	strongly agree
Demand for seasonal rentals would fall					
Competing destinations in Delaware, Maryland, Virginia, and North Carolina would gain market share					
Rental property sale prices would be negatively affected					

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