



Short-Term Rentals In the City of San Diego: An Economic Impact Analysis

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For
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Introduction

Xpera Group has undertaken and now completed an analysis of the short-term lodging industry in the City of San Diego. An earlier study on the same topic was completed by the National University System Institute of Policy Research in October 2015.

This study has five elements:

- Section 1: The Economic Benefits of Short-term Lodging to the City and County of San Diego.
- Section 2: The Short-Term Lodging Market and Its Effect on Hotel Occupancy and Rates
- Section 3: The San Diego Traditional Housing Market
- Section 4: The Short-Term Lodging Market in the City of San Diego & Its Effect on the Availability of Housing; and
- Section 5: Research on the California and San Diego tourism/hotel market.

Facts and data for this study were gathered from the U.S. Census Bureau, U.S. Department of Commerce, San Diego Tourist Authority, City of San Diego's Treasurer's office, San Diego Port District, San Diego County Assessor, Voice of San Diego, HomeAway, Airdna.co, Airbnb, Expedia, STR, Dean Runyan Associates, TNS Travel America, CBRE and from Xpera Group's extensive database. All exhibits note the source of the data.

We wish to acknowledge the cooperation of the National University System Institute of Policy Research. For the most part, we followed its methodology and, when, possible, utilized the same sources of data. We also received data directly from the short-term lodging industry.

Study Purpose and Key Findings

The purpose of this study is to assess the economic and fiscal impacts of the short-term lodging market on the City of San Diego and to assess the relationship between short-term lodging market and both the hotel market and the traditional long-term residential sale and rental markets.

Short-Term Lodging and Effect on the Hotel Market

We have reviewed numerous studies on the effect of short-term lodging and the hotel market in the United States in preparation for this study.

The San Diego County hotel market in 2016 had among the highest occupancy rates and highest revenues per room of all the major tourism metropolitan areas in the United States. Projections for 2017 indicate that the favorable trend will continue.

The City of San Diego hotel market shares in the County's hotel market's occupancy and room rate success in recent years.

Much of the health of the hotel market relates to the general economic health of the economy and, as important, the growth of the foreign visitor market, particularly the Chinese visitor market.

A substantial portion of the short-term lodging market is not a candidate for traditional hotel rooms, either because of budgetary considerations or because hotel room configurations do not appeal to the family market or larger parties traveling together and who want the privacy of an entire residence.

Most studies indicate that total short-term lodging nights in the U.S. are equal to approximately 2.4% of total hotel room nights, a percentage that is anticipated to increase over the next few years.

We have reached the conclusion that short-term lodging as a percent of total occupied room nights is less than 3.0% and that a substantial portion of that 3.0% would not utilize traditional hotels because of cost (particularly in high occupancy periods) and preference to be in a private residence or share a residence.

The Short-Term Lodging Market and its Effect on the Rental Housing Market

The short-term lodging market is growing internationally and certainly within the city and county of San Diego.

Its growth is somewhat limited by the prohibition of short-term lodging in professionally managed apartment and condominium projects and in several better-quality master-planned communities.

The short-term lodging market consists of three types of lodging: **room-sharing, private room in an owner or renter-occupied residential unit;** and the **rental of an entire residence.**

This study concentrates on the rental of an entire residence when the owner or renter is not in residence for a substantial portion of the year and therefore the unit would not be available to the traditional owner-occupied or rental market.

The Economic Benefits to the City and County of Short-Term Lodging

We have concluded that the direct effect of **spending on short term lodging in the City of San Diego will be almost \$300 million in 2017.** In addition, there is indirect and induced spending of another \$200+ million that relates to the multiplier effect of direct dollar expenditures.

In addition, the City will have sales tax generation of almost \$700,000.

In total, in 2017, we project that the short-term lodging business will produce almost \$500 million in the City of San Diego.

In addition, the short-term lodging industry will create more than 3,000 jobs in the City in 2017.

Exhibit 1

**Economic Impact &
Employment Generation
Short-Term Lodgers
City of San Diego
2017 (P)**

Category	Total Output (\$Millions)	Employment
Direct Effect Expenditures	\$ 286,955,443	1,674
Lodging	\$ 193,093,700	
Non-Lodging (1)	\$ 93,861,743	
Indirect & Induced Effect		
Indirect Effect	\$ 31,941,000	194
Induced Effect	\$ 162,240,000	1,240
Total Indirect & Induced Effect	\$ 194,181,000	1,435
Sales Tax Generation	\$ 683,189	
Total	\$ 481,819,632	3,109

(1) Assume 75% spent in the City of San Diego (the total amount is \$125,148,991)

Source: Indirect & induced effect based on National University study & IMPLAN model

Section 1: The Economic Benefits of Short-Term Lodging to the City and County of San Diego

In this section, we determine the economic benefits of short-term lodging for the City of San Diego. The spending falls into two categories: lodging and non-lodging:

Section 1-1: TOT from Spending on Lodging

Based on TOT collected in the first six months of 2017, we project that the total to be collected in 2017 will be more than \$19 million. It is likely that as the collection procedures get more sophisticated the City's TOT will grow faster than the number of nights rented.

Exhibit 2

Projected Room Nights and Gross Revenues Short-Term Lodging City of San Diego 2017 Annual			
Listing Type	Total Nights (1)	Avg. Rental (2)	Est. Gross Revenue (\$)
Whole Home	616,236	\$ 300	\$ 184,870,800
Private Room(3)	77,420	\$ 100	\$ 7,742,000
Shared Room(3)	6,870	\$ 70	\$ 480,900
Total	700,526	\$ 276	\$ 193,093,700

(1) Entire home based on Airbnb data

(2) Based on AirBnb & Other Firms

(3) Based on a five day avg stay.



These figures relate to the \$110,000,000 total computed three ago in the National University study, reflecting a substantial increase in bookings and rates.

In order to avoid exaggeration of revenues, we have assumed that the gross revenues shown above represent the entire short-term lodging market in the City of San Diego. As noted earlier, actual room night totals from multiple sources are not available, though we know that virtually all short-term lodging units are listed on multiple sites.

Section 1-2: Non-Lodging Spending

Non-lodging spending includes meals and beverages, entertainment, local transportation and other items that visitor typically spend. Based on a CIC Visitor Study the typical “visitor group” spends \$200 per night in addition to lodging.

Exhibit 3

Estimated Non-Lodging Spending Entire House Short-Term Lodgers City of San Diego 2017				
Entire House				Subject to State & Local Taxes
Category	Spending Per Group Per Night (1)	Groups	Total \$	
Meals & Beverages	\$ 84.21	616,236	\$ 51,893,234	Yes
Retail (non-food)	\$ 41.30	616,236	\$ 25,450,547	Yes
Entertainment	\$ 16.54	616,236	\$ 10,190,078	No
Local Transportation	\$ 15.43	616,236	\$ 9,508,521	No
Groceries/Misc.	\$ 42.98	616,236	\$ 26,485,823	No
Total	\$ 200.46	616,236	\$ 123,528,204	

(1) updated from 2015 CIC Visitor Study



We assumed that the \$200.46 would be for an entire home lodging. In addition to the entire house short-term lodgers, we add the private room and room-sharing spending at 50% and 25% of the amount of the entire home spending.

In total, the spending on non-lodging totals \$125,148,991, as shown here:

23	50%	\$ 21.49	15,484	\$ 332,751	25%	\$ 10.75	1,374	\$ 14,764	\$ 26,833,338	No
04	50%	\$ 100.23	15,484	\$ 1,551,930	25%	\$ 50.11	1,374	\$ 68,857	\$ 125,148,991	



Section 1-3: Total Direct & Indirect Spending

Tourism spending falls into two basic categories; Direct and Indirect/Induced Expenditures.

Direct expenditures are those dollars expended by short-term lodgers on their lodging and non-hotel expenditures such as food, entertainment and rental cars.

Indirect and induced expenditures are those that are part of the multiplier effect. For example, when the owner of a lodging facility then spends their proceeds on personal items like food or entertainment that creates another round of consumer spending.

The exhibit below details the expenditures. The exhibit also projects the number of jobs created by short-term lodging. For 2017 we have projected that short-term lodging will create more than 3,000 jobs.

Exhibit 5

Economic Impact & Employment Generation Short-Term Lodgers City of San Diego 2017 (P)

Category	Total Output (\$Millions)	Employment
Direct Effect Expenditures	\$ 286,955,443	1,674
Lodging	\$ 193,093,700	
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Indirect Effect	\$ 31,941,000	194
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(1) Assume 75% spent in the City of San Diego (the total amount is \$125,148,991)

Source: Indirect & induced effect based on National University study & IMPLAN model

The multiplier effect (indirect and induced) was determined through the use of an economic model created by the U.S. Department of Commerce 30 years ago (when we first used it in a study) and has been refined since. It is a highly sophisticated model that explains the ripple effect of spending in the economy, by industry.

Section 2: The Short-Term Lodging Market and Its Effect on Hotel Occupancy and Rates

The short-term lodging market has been a staple of European countries for decades and has only recently become a factor in accommodating persons touring in America.

Section 2-1: The Short-Term Lodging Market

The short-term lodging market in the U.S. has blossomed of late largely because of the opportunities that have availed themselves on the web. Major sites such as HomeAway and VRBO have dramatically broadened the opportunity for travel, both in the U.S. and abroad.

It has been of particular significance for persons who cannot afford traditional hotel accommodations, especially in the key marketplaces that attract the most tourists, like New York, Los Angeles, Washington, D.C., Orlando and San Diego. It has been a particular boon for the family market because of the ability to house a couple with children in an entire home or condominium for rent.


In addition, there has been a substantial expansion of foreign visitations in the past few years, heavily from the Far East and predominantly Chinese. This foreign visitor expansion has been a major positive factor in hotel occupancy in the popular tourist cities, both in the U.S. and in Europe.

Exhibit 6

Hotel & Short Term Lodging Occupancy Selected U.S. Metropolitan Areas 2017		
Metro	Hotel	Short Term Lodging
Los Angeles	80.8%	60.0%
San Francisco	84.6%	61.0%
Seattle	75.8%	61.0%
Boston	75.1%	60.0%
Washington DC	71.1%	63.0%

(1) % of total facilities available in period tested

Source: Brookings Institution, 2017; & Expedia



The **Pew Research Center** recently completed an in-depth survey of the “shared” economy. The study reported that 11% of American adults have used online services such as HomeAway or VRBO to obtain lodging overnight in a private residence. The study showed that those using the shared facilities included a broad range of ages, ethnicity, education and income.

The short-term lodging reports that its occupancy rates for available facilities is typically half the occupancy rate of hotels in major metropolitan areas around the U.S. that have the highest occupancy rates.

Exhibit 7

Short Term Lodging's Share of Weekday Hotel Demand Seven Metropolitan Areas United States January 2014-July 2016			
Area	2014	2015	
Boston	0.5%	1.0%	
Los Angeles	1.8%	3.1%	
Miami	1.6%	2.6%	
New Orleans	0.7%	1.1%	
San Francisco	2.1%	2.6%	
Seattle	0.6%	1.2%	
Washington DC	0.4%	0.7%	
Average	1.1%	1.8%	

Source: STR Study, July 2016

STR, a leading hotel research firm, recently completed a “Short Term Lodging and Hotel Performance Study.” The study only focused on “entire homes an/d condominiums.” Its findings did not include shared housing. Its findings were interesting:

- As of July 2017, the hotel industry has recorded its 77th consecutive month of revenue-per-available-room growth.
- Short term lodging occupancy generally was highest in markets where hotels had high occupancy.
- Hotel occupancy was significantly higher than short term lodging occupancy.

- While short term lodging's share of total accommodation supply (i.e., short term lodging and hotel rooms) was growing, its share of market demand and revenue still was generally below 3.0%.
- Short term lodging guests typically lodged longer than the average hotel guest, with roughly half of short term lodging room nights coming from trips of seven days or longer.
- Short term lodging guests tend to be much younger than hotel guests and have a higher percentage of females than hotels.
- The number of nights during which hotels have experienced 95% or higher occupancy has gradually increased, rising from 15 in 2010 to 71 in 2016.
- In those high occupancy periods, hotels saw no degradations of their rate premiums which were 35% higher than their regular rates.

As part of the study, which examined seven major metropolitan areas including Los Angeles and San Francisco, short term lodging's share of weekday demand has increased steadily in the past three years, but in most cases, did not rise above 3.0%.

Section 2-2: Short-Term Lodging as % of the Hotel Market, San Diego County

Exhibit 8

Based on dollar figures that the City of San Diego provided to us, the City collected \$15.6 million in short-term lodging TOT in 2016 and based on the first half of 2017 **will collect more than \$19.0 million in 2017**. This short-term total represents a 200% increase over 2015. We attribute this to the major short-term lodging websites that only recently (fall 2015) began to withhold short-term lodging TOT.

Transient Occupancy Tax Collected Short Term Lodging City of San Diego 2015-2017		
Year	\$ Collected	Index
CY 2015	\$ 9,599,728	1.00
CY 2016	\$ 15,601,797	1.63
2017 (thru July)	\$ 11,344,472	
CY 2017 (Projected)	\$ 19,447,666	2.03

Source: City of San Diego



Based on research in other markets and the given strength of the local hotel market, it is difficult to arrive at a conclusion other than that the short-term lodging market has had a minimal and/or negligible effect on the hotel market.

We have reached the conclusions that short-term lodging as a percent of total occupied room nights is less than 3.0% and that a substantial portion of that 3.0% would not utilize traditional hotels because of cost (particularly in high occupancy periods) and a preference to be in a private residence or share a residence.

Exhibit 9

Short-Term Lodging as % of Hotel Market San Diego County 2016	
Total Occupied Hotel Rooms Nights	17,130,123
Short-Term Lodging Nights	456,825
% Short-Term as % of Hotel Nights	2.7%



Section 3: The San Diego Traditional Housing Market

As a background for a discussion of the short-term occupancy market, we have prepared data on the number of housing units in the County and the City of San Diego.

The City of San Diego has 66% of the County's owner-occupied housing and 44% of its renter-occupied housing.

Exhibit 10

Percentage of Housing Stock Owner-Occupied & Renter-Occupied City of San Diego and San Diego County				
Category	City of San Diego No.	Other County No.	County of San Diego No.	City as % of County
Total Owner-Occupied	454,574	234,026	688,600	66%
Total Renter-Occupied	257,804	326,396	584,200	44%
Total	712,378	560,422	1,272,800	56%

Source: 5-Year Avg., American Community Survey, U.S. Census



Exhibit 11

Within the City of San Diego, of the total housing inventory, 64% is owner-occupied and 36% renter-occupied.

This study will focus on owner-occupied housing for this reason:

Renter-occupied housing is typically bound by leases that prohibit subletting, although it is difficult to monitor home-sharing as long as the renter is in residence. Also, it would be difficult to monitor a situation where tenants rent their unit while they go on a vacation. In any event, home-sharing would rarely have an effect on the overall supply and demand of rental housing.

Household Type & Tenure City of San Diego		
Category	No.	%
Owner-Occupied		
Single Family	227,287	
Condominium	168,228	
Other	59,059	
Total Owner-Occupied	454,574	64%
Renter-Occupied		
Single Family	57,158	
Condominium	22,357	
Apartment	178,289	
Total Renter-Occupied	257,804	36%
Total	712,378	100%

Source: 5-Year Avg. American Community Survey, U.S. Census



Within the rental housing category, there are a substantial number of homes and condominiums in the Pacific Beach area that have been rented to the vacation market for decades and have never really been part of the local housing stock. It has proven difficult to accurately document the total number in that category.

Thus, we will focus on the 227,287 single family homes and 168,228 condominiums in the City. We do not envision a situation where mobile homes or other owner-occupied forms of housing are part of the short-term lodging inventory.

Our research indicates that many, if not most, homeowner associations have taken a strong stand against short-term vacation renters and often levy substantial fines for violations.

Similarly, several major master-planned communities, like Del Sur, have also placed prohibitions on short-term rentals.

We should note that the City Council and Mayor of the City of San Diego are newly putting forth an effort to alleviate the housing shortage. This effort is focused on producing both new sale and rental housing, particularly in transit-oriented locations.

Section 4: The Short-Term Lodging Market in the City of San Diego & Its Effect on the Availability of Housing

The short-term housing market in San Diego County has grown exponentially in the past few years, mirroring the growth of that industry in other major metropolitan areas.

It is segmented into three categories: entire home, private room and room-sharing.

Documenting the total number of housing units involved in short-term lodging is rather difficult for these reasons:

- Currently, virtually all of the City's TOT revenues come from the major short-term lodging firms like HomeAway and VRBO, but they do not represent the entirety of the market, by far, especially for the rental of private rooms and room-sharing.
- Virtually all property owners of short-term lodging units advertise on multiple listing sites, so adding the listings of the major firms together would produce outlandishly misleading numbers.
- The number of sites listed changes substantially from month to month as many, or perhaps most, units are not available on a regular basis.
- Research on short-term lodging is only now beginning to get the attention of major research firms and the academic world. To have accurate lodging figures, the research firms would need the databases of the major short-term lodging firms in order to eliminate duplication of housing units. Achieving that on a national scale is a daunting exercise.
- Each of the major short-term lodging firms keep its statistics on different models and often prefer not to share the data with independent research firms.
- The major short-term lodging firms have different market strategies. For instance, HomeAway only rents "entire homes" while Airbnb rents entire homes, private rooms and room-sharing.

Section 4-1: The Size of the Local Short-Term Lodging Market

On the following exhibit, we show the estimated total number of short-term lodging “listings” for the month of June 2017 for both the City of San Diego and the County. Two-thirds of the listings are in the City of San Diego.

Also, two-thirds of the listings are for entire homes (detached or attached).

Exhibit 12

Snapshot: Short-Term Lodging Listings City and County of San Diego Month of June 2017				
Type	City of San Diego		County of San Diego	
	Total Units	%	Total Units	%
Whole Home	5,138	69.1%	7,946	68.9%
Private Room	2,059	27.7%	3,293	28.6%
Shared Room	239	3.2%	291	2.5%
Total	7,436	100.0%	11,530	100.0%

Source: various listing sources



Note: Estimated active short-term rental users in the City of San Diego with at least three bookings in the most recent calendar year. Estimates multiple listings and duplicates have been removed.

We can also note that the industry is changing. The private room and shared room lodging is declining as a percent of the business of the major web-based lodging firms.

In this exhibit, we show the percentage of listings on short term lodging firms for the months of June in 2015, 2016 and 2017. The “whole home” listings as a percent of the total are nearing 70%.

Snapshot: Short-Term Lodging Listings Selected Web-Based Firms City San Diego 2015, 2016 2017(P)						
Type	2015		2016		2017	
	Total Units	%	Total Units	%	Total Units	%
Whole Home	1,977	63.3%	3,196	65.4%	5,138	69.1%
Private Room	1,052	33.7%	1,569	32.1%	2,059	27.7%
Shared Room	95	3.0%	119	2.4%	239	3.2%
Total	3,124	100.0%	4,884	100.0%	7,436	100.0%

Source: Airdna.co and others



Note: Estimated active short-term rental users in the City of San Diego with at least three bookings in the most recent calendar year. Estimates multiple listings and duplicates have been removed.

Also notable is the more than doubling of listings between 2015 and 2017 in all three lodging categories.

We are unable to project the continuing trajectory of this pattern but suspect the short-term lodging market will continue to grow.

Section 4-2: Listings and Bookings

Exhibit 14

In the City of San Diego, the number of listings of entire homes is anticipated to pass the million level in 2017, resulting in more than 600,000 bookings. The bookings to listings ratio continues to increase and is now approaching 60%.

Taking a snapshot of the listings and bookings in the month of June in 2015, 2016 and 2017, it is evident that the volume of both bookings and listings continues to increase, but also the percent booked is accelerating. We have projected that in 2017, some 80% of listings will be booked.

Total Nights Listed and Booked Entire Homes Selected Web-Based Firms City San Diego Annual 2015, 2016, 2017 (P)			
Type	2015	2016	2017
Listings	351,367	811,547	1,040,614
Bookings	182,271	432,430	616,236
% Booked	51.9%	53.3%	59.2%

Source: Airdna.co and others



Note: Estimated active short-term rental users in the City of San Diego with at least three booking in the most recent calendar year. Estimates multiple listings and duplicates have been removed.

Exhibit 15

Booking to Listing Ratios Selected Web-Based Firms City San Diego Month of June 2015, 2016, 2017									
Type	2015			2016			2017		
	Listing	Booked Listings	%	Listing	Booked Listings	%	Listing	Booked Listings	%
Whole Home	1,977	1,260	63.7%	3,196	2,492	78.0%	5,138	4,267	83.0%
Private Room	1,052	645	61.3%	1,569	1,130	72.0%	2,059	1,599	77.7%
Shared Room	95	45	47.4%	119	80	67.2%	239	125	52.3%
Total	3,124	1,950	62.4%	4,884	3,702	75.8%	7,436	5,991	80.6%

Source: Airdna.co and others



Note: Estimated active short-term rental users in the City of San Diego with at least three bookings in the most recent calendar year. Estimates multiple listings and duplicates have been removed.

Section 4-3: Conclusions on Number of Homes in the Short-term Lodging Market in the City of San Diego

During the course of this study, we have been in contact with HomeAway, Airdna.com (a short-term lodging research firm) and short-term lodging rental firms.

Based on our research, we estimate that the total number of “entire” short term lodging housing units (homes and condominiums) that are in the City of San Diego at the present time is in the range of 5,000-7,500.

This range is based on the assumption that HomeAway, VRBO and Airbnb rentals (eliminating duplication of listings with other web-based services) represent 70-80% of the total short-term rental homes available in the City of San Diego.

Also taken into account, but not documentable, are the number of homes that are only in the short-term lodging business for part of the year. One of our sources who specializes in beach rentals said that many of their listings are vacation home owners who only use the home a few weeks a year and occasionally rent the homes for short-term lodging. For that reason they are not and have not been part of the traditional housing market.

In the unincorporated area of San Diego County, we learned that in fiscal year 2016-2017 the County collected TOT on 243 residences. The City of San Diego was unable or unwilling to provide us with that same information.

We also assume that most of the listing inventory is in the lands that straddle the I-5 between Ocean Beach and La Jolla.

On balance, our research indicates that in the City of San Diego, approximately 1.0% of the home and condominium inventory is devoted to short term lodging.

Section 4.4: The Economics of Short-Term Lodging for an Owner/Lessor

An owner must calculate the profitability of operating a residential unit as a year-round short-term lodging accommodation.

It is one option to lease out your residence while you are on a vacation, but yet another if you are to devote a residence to full-time short-term lodging.

Our analysis indicates that a residence becomes profitable as a short-term lodging business if the rents can be high enough and if a unit can be occupied more than the industry average of 40%.

In metropolitan areas where hotel rates and occupancies are high, and that the residence is well-located, it is logical to assume that it will be possible to far exceed the 40% average and obtain the rents necessary to be profitable.

Recent research has indicated that owners of second homes in strong locations are increasing as a percent of the total short-term lodging market.

Thus, based on our pro-forma below, on a year-round basis, it would be necessary to achieve an average rent of up to \$275 per night with a 50% year-round occupancy in order to match or exceed the rent the unit could obtain as a traditional rental unit. In most locales, we believe that level of rent would be difficult to obtain on a year-round basis.

Exhibit 16

Economics of Owning a Short-Term Lodging Unit "Entire Unit" City of San Diego		
Typical Market Rent in Urban Core:	\$2,500	\$2,500
Months	12	12
Total Annual Potential Income	\$30,000	\$30,000
Short-term Lodging Rate	\$225	\$275
Days	365	365
Total Potential Revenue - Annual	\$82,125	\$100,375
Occupancy Rate (industry average)	50%	50%
Net Revenue	\$ 41,063	\$ 50,188
Deduct (monthly)		
Utilities	\$ 150	\$ 150
Furnishings and Upkeep	\$ 50	\$ 50
Housekeeping	\$ 250	\$ 250
Sub-Total - Monthly	\$ 450	\$ 450
Annual	\$ 5,400	\$ 5,400
Commission to on-line Service as booking fee (1)		
Percent	3.0%	3.0%
Amount	\$ 1,232	\$ 1,506
TOT		
Percent	10.00%	10.00%
Amount	\$ 4,106	\$ 5,019
Total Cost of Operation	\$ 10,738	\$ 11,924
Net	\$ 30,324	\$ 38,263
Net Per Month	\$ 2,527	\$ 3,189

(1) renter pays 10+% fee for service

Section 4-5: The Short-Term Lodging Conundrum: Pacific Beach (92109)

We want to single out a discussion of Pacific Beach (92109). It is the most popular beach resort for tourists visiting San Diego. It has, unfortunately, an extremely limited number of hotel rooms.

The dearth of hotel rooms relates to a 1972 Citizen's Initiative that placed a 30' foot height limit on construction in the beach areas. As a result, the only two hotels of substance in the Pacific Beach area are now 40+ years of age and preceded the Initiative.

As a result of the dearth of modern hotel space near the beach, a substantial portion of the housing inventory (homes, apartments and condominiums) is rented out to vacationers. Some of the units are rented from September through May as regular apartments but are then available only for summer guests at summer short-term rates.

We have been unable to document the percent of housing units in this category. Theoretically, TOT is paid on units rented for less than 30 days, but the documentation is sparse.

Section 5: The California and San Diego Tourism/Hotel Market

In Section 5, we discuss the travel and hotel markets in both the state of California and San Diego County.

Exhibit 17

Section 5.1 Travel in California

California tourism is an industry of enormous proportions. In 2016, it is estimated to encompass **spending** of \$126 Billion, directly support 1.1 million jobs with earnings of \$45.4 billion and generate \$4.9 billion in local taxes and \$5.3 billion in state taxes.

California ranks as the number one state for **foreign tourism**. As in the past, Mexico is first in trips to California with Canada in second place both in the 2011 and 2017 survey. The major surprise is the substantial increase in visitors from China. This year it is forecasted that the number of visitors to California from China will match the total from Canada and move into third place for visitations.

Travel Industry Facts State of California 2016	
Direct Spending	\$126 Billion
Jobs Supported	1,096,000 Jobs
Job Earnings	\$45.4 Billion
Local Taxes Generated	\$4.9 Billion
State Taxes Generated	\$5.3 Billion

Source: U.S. Dept. of Commerce



Exhibit 18

International Trips to California (000) Top 6 Countries 2011-2017 (f)					
Country of Origin	2011		2017 (f)		% Increase
Country	No.	Rank	No.	Rank	
Mexico	6,844	1	7,574	1	10.7%
Canada	1,476	2	1,558	2	5.6%
United Kingdom	656	3	688	4	4.9%
Australia	550	4	599	5	8.9%
Japan	548	5	558	6	1.8%
China	470	6	1,513	3	221.9%
Total	14,464		17,178		18.8%

Source: Tourism Economics, CIC Research, OTTI



Section 5.2: San Diego Tourism Ranking

Within California, San Diego County is the second most popular metropolitan area visited, with Los Angeles in first place and Anaheim/Orange County and the San Francisco Area in third and fourth place.

As with metropolitan areas visited, San Diego ranked second in direct **travel-generated employment**, once again behind Los Angeles with Orange, Riverside and San Francisco in third, fourth and fifth place, respectively.

In terms of **travel-generated tax revenue** per household in California, San Diego ranked third with \$543 dollars per household. In this category, Los Angeles is in first place with San Francisco in second place. San Diego was followed by Orange and Alameda Counties in fourth and fifth place.

Exhibit 19

Exhibit 20

Metropolitan Areas Visited		
Direct Travel-Generated Employment Top Five Counties California 2010-2016		
Rank	County	Employment
1	Los Angeles	151,290
2	San Diego	79,230
3	Orange	72,970
4	Riverside	49,130
5	San Francisco	40,850

Source:

Source: Dean Runyan Associates



Exhibit 21

Travel-Generated Tax Revenue Per Household Top Five Counties California 2016		
Rank	County	Rev Per HH (Millions)
1	Los Angeles	\$ 1,172
2	San Francisco	\$ 723
3	San Diego	\$ 543
4	Orange	\$ 446
5	Alameda	\$ 165

Source: Dean Runyan Associates



Section 5.3: Total Visitations and Economic Impact to San Diego County

CIC Research prepares annual studies of visitations to San Diego County. They segment the count into day visitors and overnight visitors.

In 2016, they estimated a total of 30.4 million visitors, 17.4 million, or 57% of whom lodged overnight. Between 2010 and 2016, the visitor count increased by 4.0 million, or 15.5%. It is important to note that the increases have been steady, with gains each year since 2010.

Exhibit 22

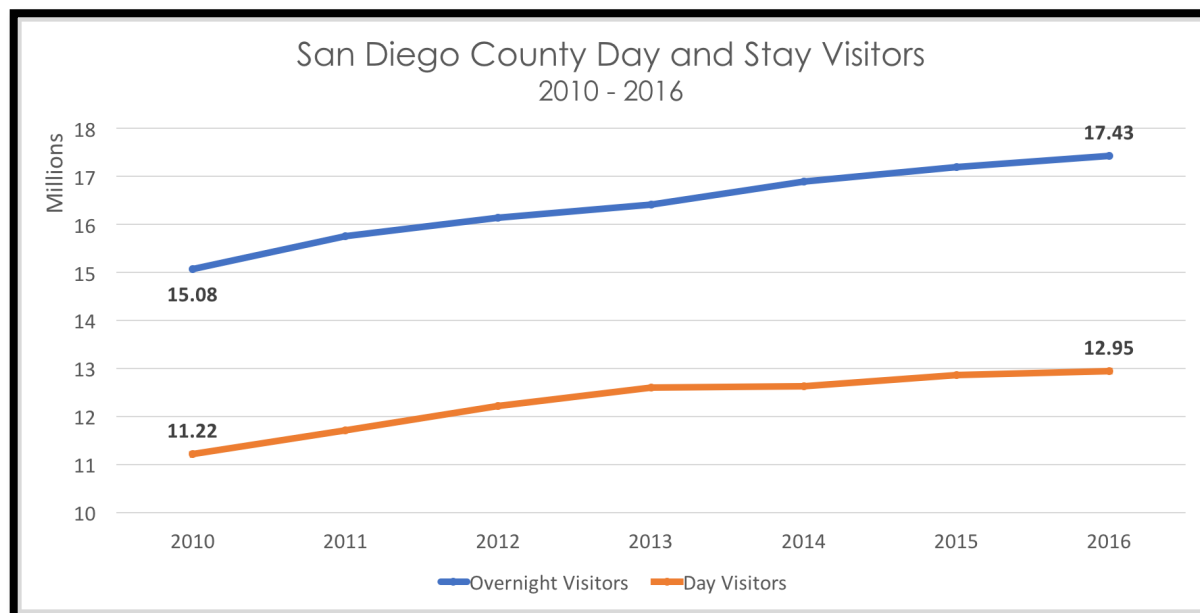
Day and Stay Visitors San Diego County 2010-2016							
Type	2010	2011	2012	2013	2014	2015	2016
Day Visitors	11,224,000	11,713,000	12,219,000	12,613,000	12,638,000	12,862,000	12,952,000
Overnight Visitors	15,080,000	15,760,000	16,136,000	16,420,000	16,892,000	17,202,000	17,427,000
Total	26,304,000	27,473,000	28,355,000	29,033,000	29,530,000	30,064,000	30,379,000

Increase % 2010-2016		
Day Visitors	1,728,000	15.4%
Overnight Visitors	2,347,000	15.6%
Total Visitors	4,075,000	15.5%

Source: CIC Research



Exhibit 23



Employment Generation

Based on a study by Dean Runyan Associates prepared for the state of California, 140,000 jobs were generated by the tourism industry in 2016, an increase of 23% since 2010. The largest single category was “accommodations and food service”, accounting for 58.6% of total employment generation.

Exhibit 24

Employment Generated by Travel Spending San Diego County 2010-2016

Category	2010	2016	Change 2010-2016	
			No.	%
Accommodations & Food Service	65,600	82,300	16,700	25%
Arts, Entertainment & Recreation	30,900	37,100	6,200	20%
Retail	9,700	10,900	1,200	12%
Ground Transportation	3,700	4,700	1,000	27%
Visitor Air Transportation	800	1,000	200	25%
Other Travel	3,600	4,400	800	22%
Total	114,300	140,400	26,100	23%

Source: Dean Runyan Associates



Visitor Spending

CIC Research has calculated that visitor spending in San Diego County in 2016 was \$10.4 billion, a highly positive change of almost 50% since 2010. Similarly, the regional impact of \$17.2 billion in 2016 is anticipated to increase by a like percentage in 2017.

Exhibit 25

Visitor Spending & Regional Impact San Diego County 2010-2016

City	2010	2016	Change 2010-2016	
			\$	%
Visitor Spending	\$ 7,079,553,000	\$ 10,401,646,000	\$ 3,322,093,000	46.9%
Total Regional Impact	\$ 11,681,262,450	\$ 17,162,715,900	\$ 5,481,453,450	46.9%

Source: CIC Research



Section 5.4 Transient Occupancy Tax Collections and Hotel Occupancy and Revenues per Room

Transient Occupancy Tax (TOT) is levied on long and short-term accommodations in most cities of San Diego County. In total, the County collections totaled \$266.9 million in 2016. **Of that total, 76% of the collections were in the City of San Diego.**

In the City of San Diego, in 2016, TOT totaled \$202.8 million. Of perhaps the most interest is that of the total TOT gain Countywide from 2010 to 2016, **97% was in the City of San Diego**

Exhibit 26

TOT Collections by City San Diego County 2010-2016				
City	2010	2016	Change 2010-2016	
			\$	%
San Diego	\$ 128,113,063	\$ 202,803,871	\$74,690,808	58%
Carlsbad	\$ 12,909,042	\$ 14,689,728	\$ 1,780,686	14%
Coronado	\$ 8,910,953	\$ 10,437,496	\$ 1,526,543	17%
Chula Vista	\$ 2,492,190	\$ 2,473,022	\$ (19,168)	-1%
Oceanside	\$ 2,351,759	\$ 4,174,210	\$ 1,822,451	77%
Other	\$ 35,021,484	\$ 31,675,577	\$ (3,345,907)	-10%
Total	\$ 189,798,491	\$ 266,941,802	\$ 77,143,311	41%
City of San Diego as % of County	67%	76%	97%	

Source: San Diego Tourism Authority

Hotel Occupancy and Rates

The hotel market in San Diego County is one of the strongest in the Nation, with occupancy rates second only to Las Vegas. In 2016, average occupancy rates Countywide were 77.1% and higher, 79.1% in the City of San Diego. Of equal importance, occupancy rates have continued to climb in each year since 2010.

Exhibit 27

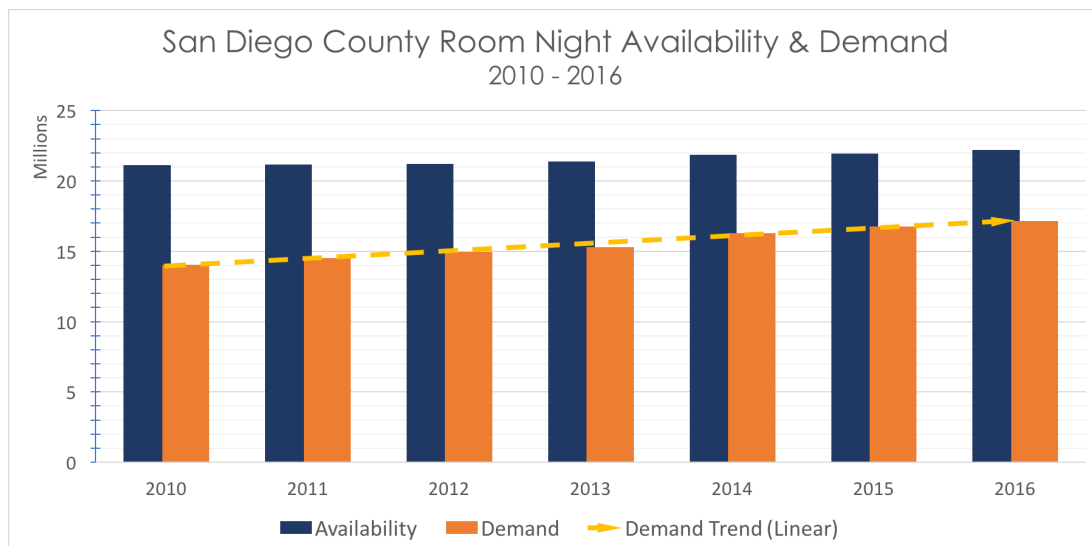
Room Night Availability & Demand San Diego City & County 2010-2016						
Year	City of SD			SD County		
	Availability	Demand	Demand as % of Availability	Availability	Demand	Demand as % of Availability
2010	13,905,679	9,495,703	68.3%	21,119,365	14,021,915	66.4%
2011	14,815,837	10,504,087	70.9%	21,159,822	14,534,022	68.7%
2012	14,687,387	10,706,768	72.9%	21,208,982	14,954,684	70.5%
2013	14,653,795	10,806,649	73.7%	21,393,259	15,304,937	71.5%
2014	14,649,820	11,239,481	76.7%	21,849,276	16,293,488	74.6%
2015	14,594,521	11,457,128	78.5%	21,941,628	16,744,838	76.3%
2016	14,730,836	11,652,376	79.1%	22,220,804	17,130,123	77.1%

Source: San Diego Tourism Authority



In 2010, in the City of San Diego, occupancy rates were 68.3% and have climbed to 79.1% in 2016.

Exhibit 28



Of equal importance, REVPAR (revenue per room) has continued to climb in both the County of San Diego and the City of San Diego. Since 2010, in the City of San Diego, REVPAR has moved upward from \$124 per night to \$162 per night in 2016, an annual gain of 6.1%, far outpacing the inflation rate (CPI) in the same timeframe.

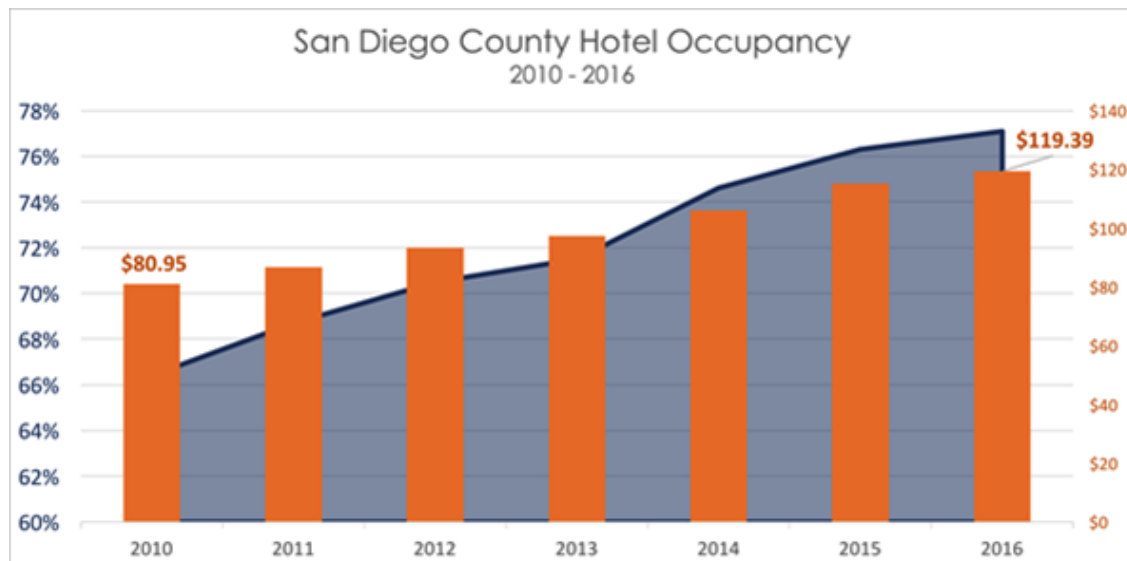
Exhibit 29

Hotel Occupancy & REVPAR San Diego City & County 2010-2016				
Year	City of SD		SD County	
	Occupancy	REVPAR	Occupancy	REVPAR
2010	68.3%	\$ 123.83	66.4%	\$ 80.95
2011	70.9%	\$ 131.18	68.7%	\$ 86.58
2012	72.9%	\$ 136.11	70.5%	\$ 93.14
2013	73.7%	\$ 141.03	71.5%	\$ 97.17
2014	76.7%	\$ 147.78	74.6%	\$ 105.97
2015	78.5%	\$ 157.53	76.3%	\$ 115.04
2016	79.1%	\$ 161.87	77.1%	\$ 119.39

Source: San Diego Tourism Authority



Exhibit 30




In downtown and near the coast, REVPAR was substantially higher than the city-wide and County-wide averages, as shown here:

Exhibit 31

Hotel Occupancy & REVPAR Selected Areas City of San Diego June 25-July 1 2017		
Area	% Occupancy	REVPAR
Downtown	88.6%	\$ 183
Mission Bay	92.8%	\$ 205
Pt. Loma / Airport	90.2%	\$ 137
Mission Valley	87.6%	\$ 124
La Jolla / Coastal	87.2%	\$ 224

Source: STR



Section 5.5: Hotel Construction

Given the continually high occupancy and growing REVPAR, hotel developers have sensed the need for more hotel space in San Diego.

In the following exhibit, we show the hotels that have been completed in the downtown area since 2015 as well as those under construction and in planning.

In total, 1,168 rooms have been completed since 2015, with another 775 rooms under construction and 3,964 rooms in planning.

Planned, Under Construction and Recently Completed Hotels Downtown San Diego and Vicinity as of Mid-Year 2017						
Name	Developer	Address	Site Sq.Ft.	Rooms	Levels	Status
Courtyard by Marriott	J Street Hospitality	453 Sixth Ave.	n/a	90	14	Complete 10/2015
Marriott Springhill Suite	Lankford	Lane Field	n/a	250	20	Complete 4/2016
Marriott Residence Inn	Lankford	Lane Field	n/a	147	20	Complete 4/2016
Hilton Garden Inn & Springhill Suites	T2 Development - Tarsadia /GLJ	Fat City site	62,291	364	6	Complete 9/2016
Pendry	Robert Green & Co. & Montage	5th Avenue at J St.	n/a	317	12	Complete 5/2017
Intercontinental	Lankford /Intercontinental	Lane Field	n/a	400	22	Under Construction
Carte Hotel & Suites	JR Legacy Holdings	401 West Ash St.	19,981	240	14	Under Construction
Canopy	Hilton	702 Island Avenue	n/a	135	22	Under Construction
Barracks Hotel	McMillin & Untitled Hospitality	Liberty Station	n/a	90	2	Planned
n/a	former carleton site	10th & Market	10,000	n/a	n/a	Planned
7th & Island Hotel	J Street Development	NWC 7th & Island	27,500	324	20	Planned
Moxy	J Street Hospitality	E/S 6th btn. E & F	7,500	126	8	Planned
Manchester Pacific Gateway	Manchester	Harbor Drive	n/a	1,390	n/a	Planned
Ritz Carlton	Cisterra	7th & Market	60,000	160	n/a	Planned
Sixth Ave. Suites	San Diego Hope Partners/Behram Baxter	e/s 6th Btn. Beech & Ash	7,500	98	9	Planned
Crown Plaza	Intercontinental Hotels	7th and Ash	n/a	186	18	Planned
Staybridge Suites	Intercontinental Hotels	8th and Ash	n/a	146	18	Planned
Liberty Station (3 hotels)	McMillin & Inermountain Mgt LLC	Liberty Station	653,400	650	n/a	Planned
Sunroad Harbor Island Hotel	Sunroad	Harbor Island	n/a	175	4	Planned
Hilton Bayfront Addition	Hilton	next to Hilton	n/a	500	18	Planned
AC Gaslight	Marriott	5th btn. F & G	n/a	119	7	Planned
Completed				1,168	20%	
Under Construction				775	13%	
Planned				3,964	67%	
Total				5,907	100%	

Source: Xpera Group Database



In addition, there are hotels that have been recently completed, under construction and in planning elsewhere in the County, mostly in those communities straddling the I-5 freeway and/or at the casinos.

The County has an almost complete dearth of hostels and other moderate priced visitor lodging. As a result, short-term rentals have become a partial substitute for that visitor lodging type in San Diego.

Section 5-6: Convention Center

Exhibit 33

The City of San Diego's convention center maintains one of the highest occupancy rates in the Nation with a 74% occupancy rate projected for 2017. The rate of occupancy has steadily climbed each year since 2010.

A third phase of the convention center is in planning although the completion date is not certain. The third phase will allow San Diego to compete for the larger National conventions and, of course, create substantial additional demand for accommodations of all types.

Annual Occupancy Convention Center San Diego 2010-2016

Year	%
2010	65%
2011	61%
2012	64%
2013	62%
2014	65%
2015	68%
2016	66%
2017 (f)	74%

Source: San Diego
Convention Center Corp.



Section 5.7: Cruise Ship Passengers

It is highly likely that the hotel occupancy rates would be higher than they are today if the cruise ship business has not dissipated in the past few years, as many of the passengers extend their vacations by visiting San Diego either before or after their cruise.

In 2008, San Diego hosted almost 1.0 million passengers. Most of their cruises were Mexican-bound. In that timeframe, there was considerable press about drug-related murders and other assorted crimes in Mexico. As a result, the cruise ship business plummeted 80% to a low of 182,693 passengers in 2014 and has now stabilized and is very gradually increasing. As that business returns, it will drive higher occupancy in the downtown and coastal hotels.

Exhibit 34

Cruise Ship Passengers Port of San Diego 2008-2016

Year	Ships	Passengers	Index
2008	279	991,559	100%
2009	224	813,822	82%
2010	209	779,721	79%
2011	125	396,018	40%
2012	84	254,774	26%
2013	79	208,812	21%
2014	70	182,693	18%
2015	73	183,136	18%
2016	69	198,399	20%

Source: Port of San Diego
Annual Report



Methodology

The methodology used in this report closely follows that of the National University study from 2015. We did have the benefit of data that was not previously available as a result of newer data-collecting methods and a broader range of research sources.

The most difficult research relates to accurately determining the number of available short-term lodging facilities and their percent of utilization. We relied substantially on HomeAway, Airdna.co and Airbnb for input data on that subject. We are confident that our findings are statistically accurate within ranges of data, but hesitate to put “exact numbers” on the findings.

In recent years, the number of on-line services that provide short-term lodging facilities has expanded exponentially as have the number of persons using those on-line services, as room-sharing and private-room loading have become more acceptable and have therefore allowed a far larger segment of the population to vacation with modest budgets.

Data on spending is not an exact science, but we did have several sources that led us to what we consider realistic findings. In many cases, we know we understated spending for non-hotel items like food and beverages. We were not able to determine accurately spending on such venues as gaming casinos or other major event spending like horse racing, Legoland, SeaWorld or the Zoo, or, for that matter, a day at Disneyland or Tijuana.

We also estimated that 75% of non-lodging expenditures would be within the City of San Diego. That conclusion is logical but certainly not result from scientific methodology.

Xpera Group

Xpera Group is the West Coast's most comprehensive team of construction consultants and strategic advisors for the built environment. Having started as a construction forensics firm in 2009, we have expanded our offerings over the years to deliver specialized expertise to clients at all phases of the development process.

Having assembled more than 50 highly experienced construction professionals in virtually every specialty trade, we are uniquely qualified to serve a wide range of clients, including contractors, developers, legal and insurance professionals, and property owners.

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Economic Research Division

In today's world, gathering the statistical data for a market research report is the easy part. Achieving a deeper understanding of the various market forces at play on a specific project requires a more sophisticated approach.

Xpera Group's economic research division is led by Alan Nevin, one of the West Coast's leading real estate economists. With decades of proven experience in both economics and real estate development, he specializes in producing **market strategy studies**, which represents a major departure from traditional **market research reports**. What is the distinction? Most market research reports include a multitude of pages filled with statistics on the economy and market, followed by brief conclusions and a summary of project recommendations. What is inevitably missing is the most critical element—the strategy and analysis that connect the statistics to the recommendations. That's where we shine.

Having performed over 1,000 market studies across the United States and as a former chief economist for the California Building Industry Association, Nevin is uniquely positioned to help ensure your project has the best strategy for success.

Economic & Market Research Studies

- Feasibility Studies for residential and commercial development
- Economic Overviews, Forecasting and Trending – Major Metropolitan Areas
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- Fiscal impact reports
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- Supporting Research & Analysis – Assist Attorneys in Case Strategies, Asset Valuation, Calculated Damages, Financial Feasibility and Proforma Analysis, Market Trends and Conditions
- Mediation – Negotiate Settlements on Real Property Disputes, Negotiate Settlements for Damages and Loss of Value

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- Valuation of investments, properties in development and limited partnership interests