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

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Report prepared for:

The New Jersey REALTORS® Issues Mobilization Fund

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AN OXFORD ECONOMICS COMPANY

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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 nearly 139,000 seasonal second homes in New Jersey, including nearly 19,000 in Atlantic County, 52,000 in Cape May County, 14,000 in Monmouth County, and 38,000 in Ocean County.

In 2015, 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' current analysis (as well as the original analysis in 2015) is that the introduction of a 6.625% 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.

This document presents key elements of the research and findings. It is organized in six sections:

1. The performance and profile of the NJ seasonal rental market
2. Baseline economic & fiscal (tax) impacts
3. Proposed sales tax on rentals
4. Economic & fiscal (tax) impacts of a 6.625% sales tax
5. Impacts based on imputed rent
6. Conclusion

1. The performance and profile of the NJ seasonal rental market

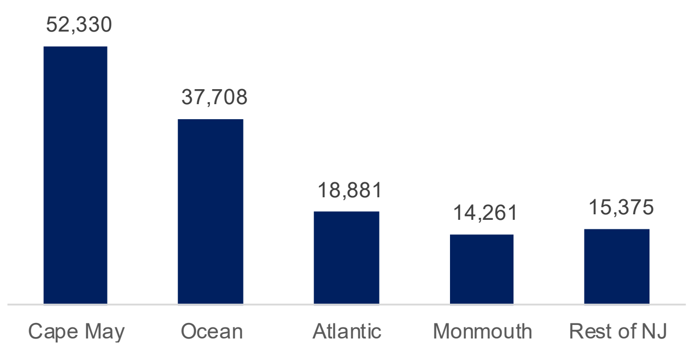
Survey distribution

Tourism Economics, in coordination with the New Jersey REALTORS® Issues Mobilization Fund, distributed an online survey in early 2019 to collect data on the 2018 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. Similar to Tourism Economics' 2015 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 nearly 3,000 properties throughout New Jersey, representing a 2.1% sample of the 138,555 total seasonal second homes. Based on the sample size of 3,000 properties, survey results yield a confidence level of 95% with a confidence interval of +/- 0.77%

Please refer to the appendix for a copy of the actual survey instrument.

New Jersey seasonal second homes by county, 2018



Source: US Census Bureau American Community Survey

Property size

One- to three-bedroom properties represent 62% of seasonal second homes in New Jersey.

Based on summary survey results, we estimate that in 2018 one- to three-bedroom properties represented 62% of seasonal second homes (86,194 homes), four- to five-bedroom properties represented 30% (41,930 homes), and six- or more bedroom properties represented 8% (10,430 homes) of seasonal second homes in New Jersey, as shown in Figure 2.1.

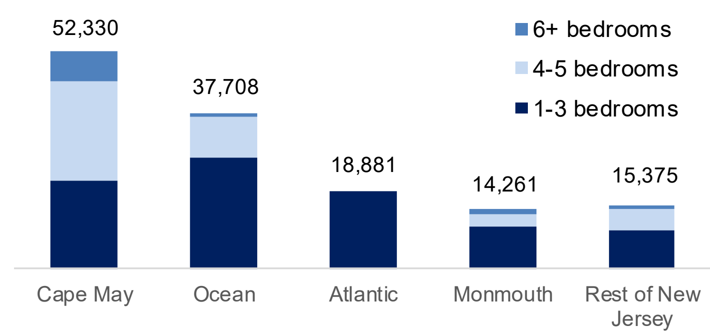
Ocean County had the most one- to three-bedroom properties (29,956), while Cape May county had the most four- to five-bedroom properties (23,940) and six- or more bedroom properties (7,217).

New Jersey seasonal second homes by number of bedrooms, 2018

	1-3 bedrooms	4-5 bedrooms	6+ bedrooms	All seasonal second homes
Total, New Jersey	**86,194**	**41,930**	**10,430**	**138,555**
% of State Total	62%	30%	8%	100%
Shore counties	**76,904**	**36,906**	**9,370**	**123,180**
Atlantic	18,881	0	0	18,881
Cape May	21,173	23,940	7,217	52,330
Monmouth	9,894	3,261	1,106	14,261
Ocean	26,956	9,705	1,047	37,708
Rest of New Jersey	**9,290**	**5,025**	**1,060**	**15,375**

Source: US Census Bureau American Community Survey, Tourism Economics

New Jersey seasonal second homes, by size and county, 2018



Source: US Census Bureau American Community Survey

Weekly rental rates

The weighted average weekly rental rate for all seasonal homes during the 2018 peak season was $4,011.

The accompanying table provides a detailed breakdown of the average weekly rental rates in 2018 for seasonal second homes by month and number of bedrooms.

During the 2018 peak season (June to August), one- to three-bedroom properties rented for an average of $2,484 per week, while four- to five-bedroom properties and six- or more bedroom properties rented for an average of $4,092 and $6,730 per week, respectively. In the 2018 off-season, one- to three-bedroom properties rented for $1,393 per week, four- to five-bedroom properties rented for $2,167 per week, and six- or more bedroom properties rented for $3,893 per week.

Overall, the weighted average weekly rental rate for all seasonal homes during the 2018 peak season (June to August) was $4,011, while the average weekly rental rate in the off-season was $2,205.

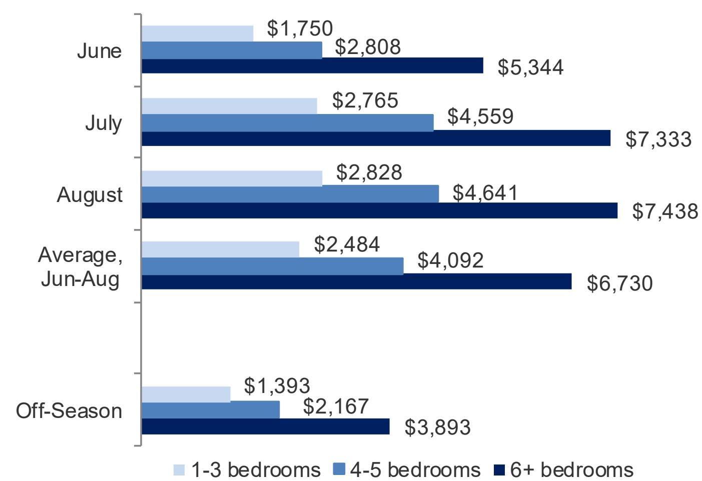
Respondents were asked to estimate the average change in seasonal rental rates for the 2018 rental season. On average, responses indicate that rental rates in 2018 increased 3.8% over 2017 levels.

New Jersey seasonal second homes: average weekly rental rates, by month and number of bedrooms, 2018

	1-3 bedrooms	4-5 bedrooms	6+ bedrooms	All seasonal second homes
Average, June-August	**$2,484**	**$4,092**	**$6,730**	**$4,011**
June	$1,750	$2,808	$5,344	$2,964
July	$2,765	$4,559	$7,333	$4,430
August	$2,828	$4,641	$7,438	$4,475
Off-Season	**$1,393**	**$2,167**	**$3,893**	**$2,205**

Source: Tourism Economics

New Jersey seasonal second homes: average weekly rental rates, by month, 2018



Source: Tourism Economics

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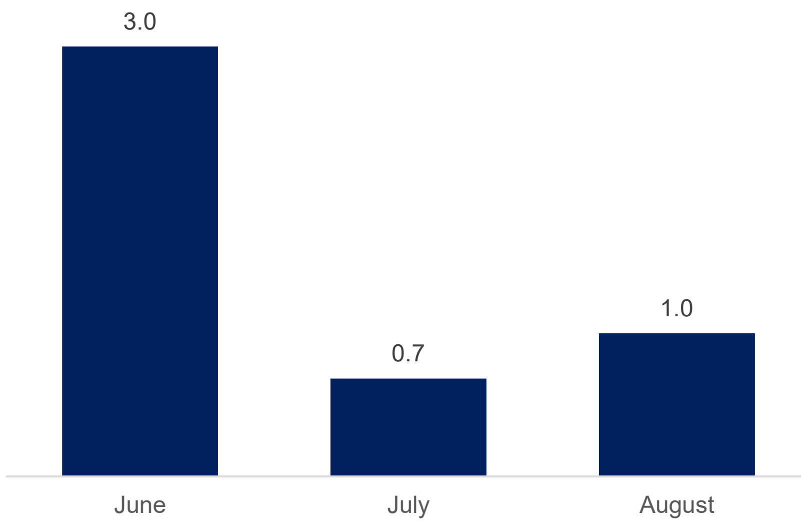
Unrented peak & off-peak weeks

Seasonal second homes averaged 4.7 total un-rented weeks during the peak season in 2018.

The accompanying figure summarizes the average number of un-rented weeks per seasonal second home during the peak season in 2018. According to survey responses, seasonal second homes averaged a total of 4.7 un-rented weeks during peak season in 2018. Properties averaged 3.0 un-rented weeks in June, approximately 0.7 un-rented weeks in July, and 1.0 un-rented weeks in August.

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 2018. Seasonal second homes averaged approximately 4.5 rented off-season weeks in 2018.

New Jersey seasonal second homes: average number of unrented peak season weeks per property, 2018



Source: Tourism Economics

2. Baseline economic & fiscal (tax) impacts

Economic impacts defined

Seasonal second homes in New Jersey generate substantially more economic activity than ordinary real estate.

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. The figure below provides an illustration of how spending flows through an economic impact model.

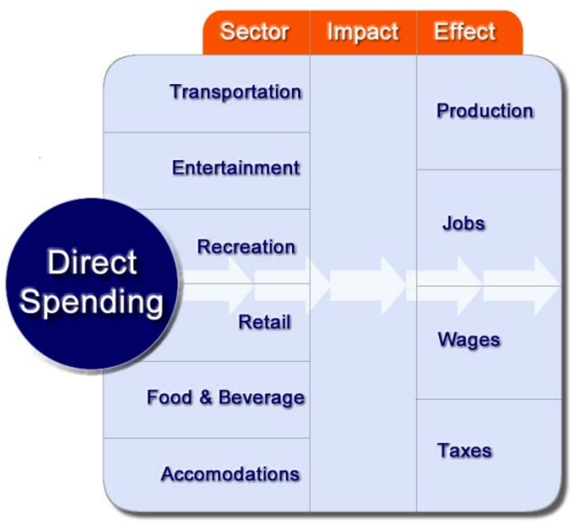
The two main components of the direct economics impacts attributable to seasonal second homes in New Jersey include:

Rental revenue: Revenue generated by seasonal second homes

Visitor spending: Spending by renters, owners, and friends and relatives of owners at local establishments, including restaurants, retailers, entertainment and recreation venues, and transportation.

The remainder of this section provides details on estimated rental revenue and visitor spending attributable to seasonal second homes.

Illustration of economic impact model flow

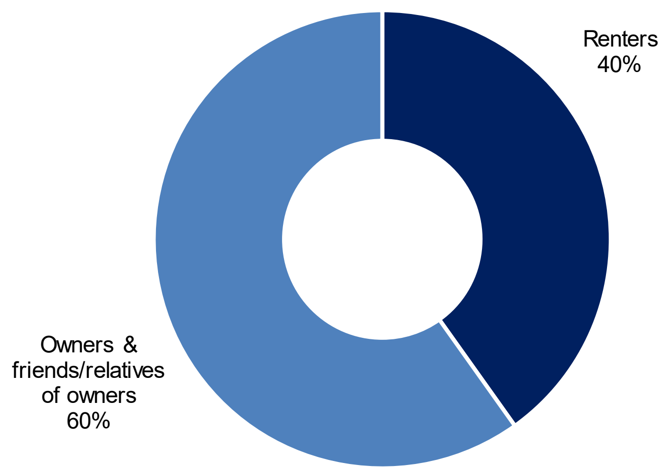


Rental revenue

Approximately 40% of available weeks for seasonal second homes in New Jersey are rented for revenue.

Rental revenue for the 2018 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) 2017 New Jersey Overnight Leisure Visitor Profile, an estimated 40% 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.

New Jersey seasonal second homes: percent of weeks occupied by renters, owners and owners/friends & relatives of owners, 2018



Source: Tourism Economics

Rental revenue

The equivalent of 46,000 rented seasonal homes generated nearly $2.1 billion in peak and off-peak rental revenue in 2018.

Based on average weekly rental rates provided by survey respondents, the equivalent of 46,000 rented seasonal homes in 2018 generated more than $1.7 billion in rental revenue during the peak season and $339.4 million in rental revenue during the off-peak season, resulting in an annual total of nearly $2.1 billion.

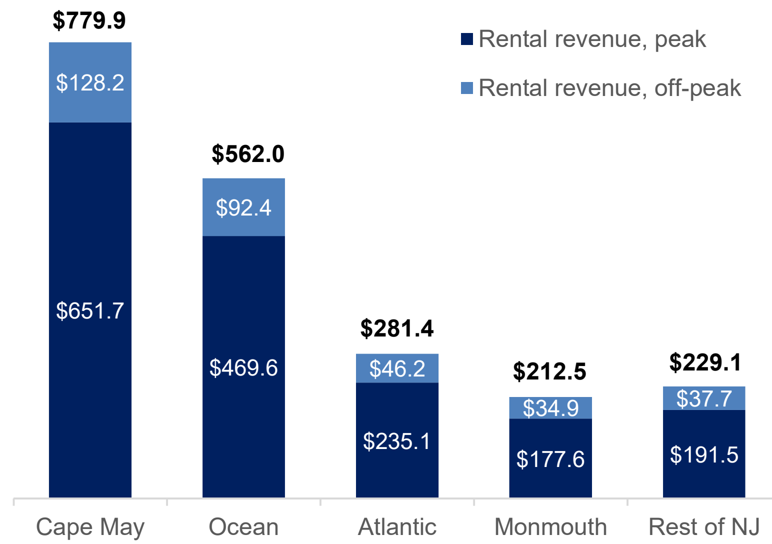
Total peak and off-peak rental revenue amounted to approximately $281.4 million in Atlantic County, $779.9 million in Cape May County, $562.0 million in Ocean County, and $212.5 million in Monmouth County, as shown in the accompanying table.

New Jersey seasonal second homes: peak and off-peak rental revenue (number of homes and $ millions), 2018

	1-3 bedrooms	4-5 bedrooms	6+ bedrooms	Seasonal Second Homes
Total, New Jersey	**86,194**	**41,930**	**10,430**	**138,555**
% of State Total	62%	30%	8%	100%
Shore counties	**76,904**	**36,906**	**9,370**	**123,180**
Atlantic	18,881	0	0	18,881
Cape May	21,173	23,940	7,217	52,330
Monmouth	9,894	3,261	1,106	14,261
Ocean	26,956	9,705	1,047	37,708
Rest of New Jersey	**9,290**	**5,025**	**1,060**	**15,375**

Source: Tourism Economics

New Jersey seasonal second homes: peak and off-peak rental revenue ($ millions) by county, 2018



Source: Tourism Economics

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Visitor spending (renters & owners)

Renters and owners spent a total of more than $1.0 billion at local businesses and establishments during their stay at seasonal second homes in 2018.

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.

Based on D.K. Shifflet's New Jersey Overnight Leisure Visitor Profile, we estimate that overnight leisure visitors to New Jersey spent an average of $113 per person per day, not including the cost of room and board. This $113 in spending included $26 on transportation, $31 on food, $16 on shopping, $33 on entertainment, and $6 in miscellaneous expenses. We assume similar spending figures for 2018.

Based on survey data, as well as data from D.K. Shifflet, we estimate that there were approximately 2.6 million person stays by renters and 6.3 million person stays by owners and friends or relatives of owners at seasonal second homes in 2018.

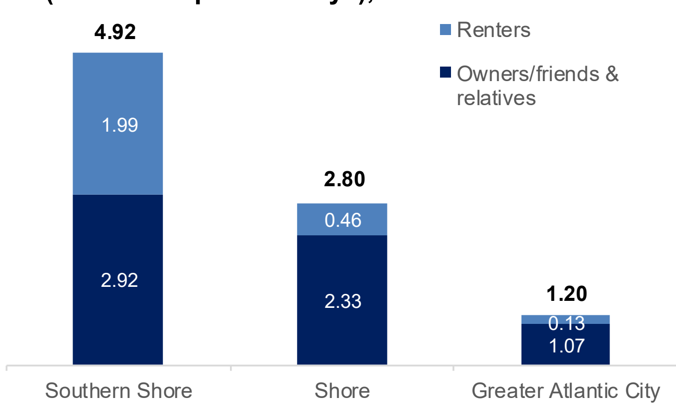
Based on average spending of $113 per person per day, renters and owners spent a total of more than $1.0 billion at local businesses and establishments during their stay at seasonal second homes in 2018.

Person stays at seasonal second homes & total spending (person stays and $ millions), 2018

	Person stays at seasonal second homes			
	Renters	Owners/ friends & relatives	Total person stays	Total spending ($ millions)
Total	**2,588,281**	**6,328,936**	**8,917,217**	**$1,005.8**
Shore	463,342	2,334,758	2,798,100	$315.6
Southern Shore	1,993,386	2,923,687	4,917,073	$554.6
Greater Atlantic City	131,553	1,070,492	1,202,044	$135.6

Source: Tourism Economics

Person stays at seasonal second homes (millions of person stays), 2018



Source: Tourism Economics

Summary direct impacts of seasonal second homes

Seasonal second homes generated a direct economic impact of $3.1 billion in 2018.

The previous sections outlined the two main components of the direct economic impacts attributable to seasonal second homes. As shown in the accompanying figure, total direct economic impacts amounted to nearly $3.1 billion in 2018, including:

- $2.1 billion in rental revenue
- $1.0 billion in spending by renters and owners at local business and establishments.

Summary direct economic impacts of seasonal second homes ($ millions), 2018

Total direct economic impact	**$3,070.7**
Rental revenue	**$2,064.9**
Renter/owner spending	**$1,005.8**
Transportation	$229.1
Food	$278.7
Shopping	$146.2
Entertainment	$294.8
Miscellaneous	$55.7

Source: Tourism Economics

Total economic impacts of seasonal second homes

Seasonal second homes generated a total economic impact of $5.5 billion in 2018, including nearly 58,000 total jobs.

As previously described, the direct economic impacts of seasonal second homes will generate additional economic impacts as they ripple through the regional and statewide economies and generate economic activity for downstream suppliers.

We estimate that seasonal second homes' direct impact of $3.1 billion generated $2.4 billion in indirect and induced expenditures, resulting in a total economic impact of $5.5 billion in 2018. This total economic impact of $5.5 billion included $1.8 billion in total labor income, supporting nearly 58,000 total jobs.

Total economic impacts of seasonal second homes ($ millions and number of jobs), 2018

	Impacts of rental revenue	Impacts of renter/owner spending	Total impacts
Total economic impact	**$3,841.2**	**$1,659.7**	**$5,500.9**
Direct impact	$2,064.9	$1,005.8	$3,070.7
Indirect & induced impacts	$1,776.2	$653.9	$2,430.1
Total job impact	**37,717**	**20,122**	**57,839**
Direct jobs	20,379	10,479	30,858
Indirect & induced jobs	17,339	9,643	26,981
Total labor income impact	**$1,198.1**	**$599.5**	**$1,797.5**
Direct labor income	$554.6	$272.3	$826.9
Indirect & induced labor income	$643.4	$327.2	$970.6

Source: Tourism Economics

Baseline fiscal (tax) impacts

Seasonal second homes generated $613 million in state and local taxes in 2018.

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

As shown in the accompanying table, annual ongoing state and local taxes amount to $613.0 million in 2018. This annual tax impact included $177.0 million in sales tax revenue, $59.9 million in personal income taxes, and $284.1 million in property taxes.

Total fiscal (tax) impacts of seasonal second homes ($ millions and number of jobs), 2018

	Tax impact
Total taxes ($ millions)	**$1,350.2**
State & local taxes ($ millions)	**$613.0**
Sales	$177.0
Bed tax	$19.8
Personal income	$59.9
Property	$284.1
Corporate	$25.1
Social insurance	$4.4
Excise and fees	$42.6
Federal taxes ($ millions)	**$737.2**
Corporate	$108.3
Indirect business	$63.3
Personal income	$247.2
Social security	$318.4

Source: Tourism Economics

3. Proposed sales tax on rentals

Proposed sales tax on rentals

Approximately 46% of respondents felt the sales tax would be passed on entirely to renters in the form of higher effective rental rates.

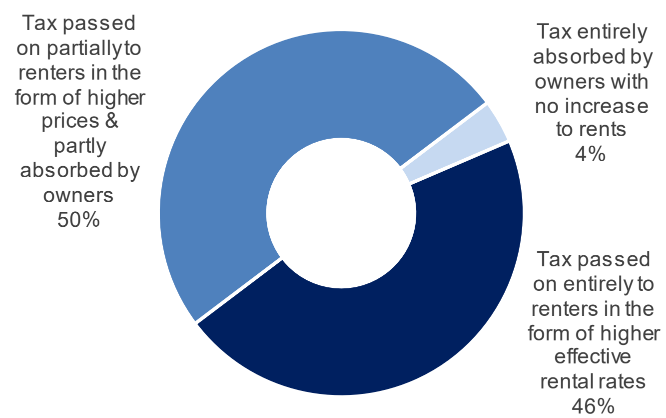
The proposal of a 6.625% sales tax on seasonal home rentals raises a number of questions regarding the impact and overall net effect of the tax on the seasonal rental market and its statewide economic and fiscal impacts. While the tax would generate new tax revenues for state and local governments, it 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 6.625% sales tax. If the 6.625% 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. Be partially absorbed by owners and partially passed on to renters in the form of higher rental rates.

The figure below summarizes REALTORS®' survey responses and how they predict the market would react to the introduction of a 6.625% sales tax. Approximately half of REALTORS® (50%) felt that the tax would be passed on partially to renters in the form of higher prices and partially absorbed by owners. Nearly 46% of REALTORS® felt that the tax would be passed on entirely to renters in the form of higher effective rental rates. Just four percent (4%) of survey respondents felt that owners would completely absorb the tax and not increase rental rates.

Expected market response to the introduction of a 6.625% sales tax on seasonal second home rentals



Source: Tourism Economics

Potential outcomes of the introduction of a sales tax

Approximately 57% of survey respondents either agreed or strongly agreed that demand for seasonal rentals would fall with the introduction of the sales tax.

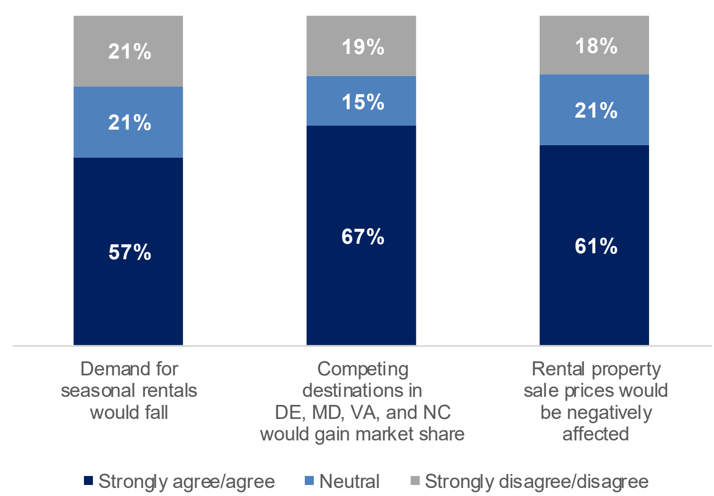
As a follow up question, respondents were asked what they would expect if the proposed sales tax were passed on to renters in the form of higher effective rental rates. Respondents indicated whether they agreed or disagreed with the following outcomes:

- 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 the accompanying figure, the vast majority of survey respondents expected negative outcomes if the sales tax were passed, resulting in higher effective rental rates.

Approximately 57% of survey respondents either agreed or strongly agreed that demand for seasonal rentals would fall. More than two-thirds (67%) of respondents felt that competing destinations in DE, MD, VA, and NC would gain market share. Nearly 61% of respondents expected rental property sale prices would be negatively affected.

Expected effect if proposed 6.625% sales tax were passed on to renters in the form of higher effective rental rates



Source: Tourism Economics

Price elasticity of demand

Concept: Tourism demand decreases in response to price increases, reflecting a negative price elasticity of demand.

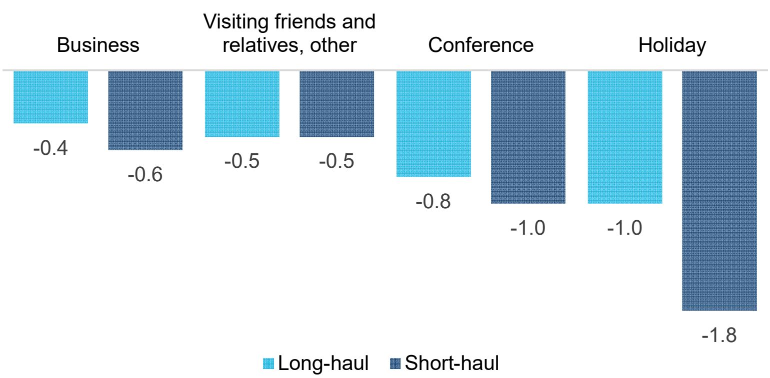
"Price elasticity" measures the responsiveness of demand for a good or service, in this case tourism, to changes in price. Economists frequently refer to this as the price elasticity of demand. In this case, "visitor arrivals" represents demand. Price elasticity of demand is calculated as follows:

Price elasticity of demand =

% change in quantity demanded / % change in price.

Price elasticity typically has a negative sign because an increase in price results in a decrease in demand. Goods and services that are more price sensitive, also referred to as more "elastic", demonstrate a greater decrease in quantity demanded as a result to an increase in the price.

Estimated price elasticity of demand by traveler segment



Source: Tourism Economics estimates based on literature review and market considerations

Observations from literature review:

- Tourism demand is responsive to price according to the empirical evidence. Reported elasticities vary in studies according to a wide range of different characteristics of demand.
- Average price elasticity in tourism research literature is around -1, with a range of approximately -0.25 to -2.7 across various situations. In other words, a 1% increase in prices will cause a 1% fall in demand, other things being equal.
- Narrowly-defined markets tend to be more price elastic.
- Leisure travelers tend to be more responsive to price than business travelers.
- Empirical results indicate that price is more important in determining longer-run trends than short-run activity. There is some time lag between price change and the impact on demand. Some research points to effects accumulating over three years.

Price elasticity of demand

With a price elasticity of -0.75, a 6.625% increase in rental prices would result in a 4.969% decrease in demand.

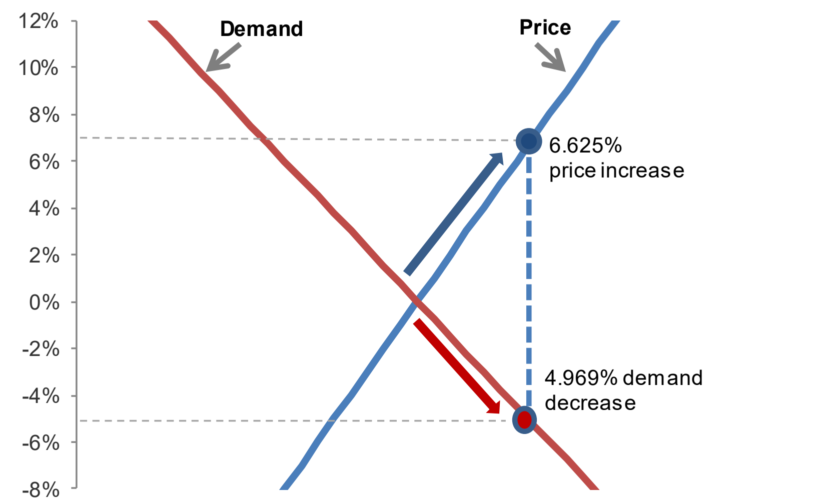
As shown on the previous page, average price elasticity in tourism research literature is approximately -1.00, with a range of approximately -0.25 to -2.70 across various situations. The average price elasticity for travelers visiting friends and relatives is -0.50, while the average price elasticity for travelers on holiday ranges from -1.00 to -1.80.

Based on these averages, we conservatively assume that seasonal home market in New Jersey has a price elasticity of 0.75. In other words, a 1.00% *increase* in prices will generate a -0.75% *decrease* in overall demand.

With a price elasticity of -0.75%, if a 6.625% tax were passed on entirely to renters, ultimately leading to a 6.625% increase in rental prices, demand would decrease by nearly 4.969%.

The accompanying figure 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 -0.75.

Expected effect if proposed 6.625% sales tax were passed on to renters in the form of higher effective rental rates



Source: Tourism Economics

Effects of owners absorbing the proposed sales tax

Owners absorbing the proposed sales tax to avoid increased rental prices would result in a $4.9 million reduction in rental revenue.

Owners absorb sales tax → Reduced rental income

As previously shown, four percent (4%) of survey respondents indicated that they expected the 6.625% sales tax would be entirely absorbed by owners, with no increase to rental rates.

An additional 50% 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 6.625% 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 nearly 4% of seasonal home owners who rent their property will bear the 6.625% sales tax, ultimately reducing their rental income.

Based on current demand levels and rental rates, four percent of owners absorbing a 6.625% sales tax would result in a reduction in rental revenue of $4.9 million.

Lost rental revenue attributable to owners absorbing the proposed sales tax to avoid increased rents

Current seasonal home rental revenue ($ millions)	$2,064.9
% of owners entirely absorbing the sales tax, resulting in no increase in rental prices	3.6%
Revenue base suject to tax rate ($ millions)	$73.7
Tax rate	6.6%
Lost rental revenue absorbed by owners with no increase in rental prices ($ millions)	**-$4.9**

Source: Tourism Economics

Effects of owners passing on the tax entirely to renters

Owners passing on the tax entirely to renters would result in higher rental prices, a 5.0% loss in demand, and a $47.6 million reduction in rental revenue.

Renters absorb sales tax → Increased prices & reduced demand

As previously described, 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 responses, we assume that 46% of seasonal home owners pass the entire 6.6% sales tax on to renters (and raise their effective rental rates by 6.6%), ultimately leading to a 5.0% reduction in demand for these home owners.

Based on current levels of demand and rental rates, the 5.0% reduction in demand attributable to increased rental rates would result in a revenue loss of nearly $47.6 million.

Lost rental revenue attributable to owners passing on the entire sales tax to renters, resulting in higher rental prices

Rental revenue base	
Current seasonal home rental demand (rental revenue) ($ millions)	$2,064.9
Percent of owners passing on the sales tax entirely to renters, resulting in higher rental prices	46.4%
Revenue base subject to price-demand elasticity ($ millions)	$958.7
Price-demand elasticity	
Tax rate (% increase in rental prices)	6.6%
Price-demand elasticity	-0.75
Lost demand due to increase in rental prices	-5.0%
Lost rental revenue attributable to increased rental prices resulting from the sales tax ($ millions)	**-$47.6**

Source: Tourism Economics

Effects of owners partially absorbing the sales tax

An estimated 50% of owners partially absorbing the tax and partially passing the tax on to renters would result in $60 million in lost revenue.

Owners and renters both absorb sales tax → Reduced rental income, increased prices & reduced demand

Approximately 50% 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 nearly $60.0 million in total lost revenue.

The $60.0 million in lost revenue includes:

- $34.2 million in lost rental revenue attributable to the portion of the sales tax absorbed by owners
- $25.7 million in lost rental revenue attributable to decreased demand resulting from the portion of the sales tax passed on to renters, resulting in higher rental rates.

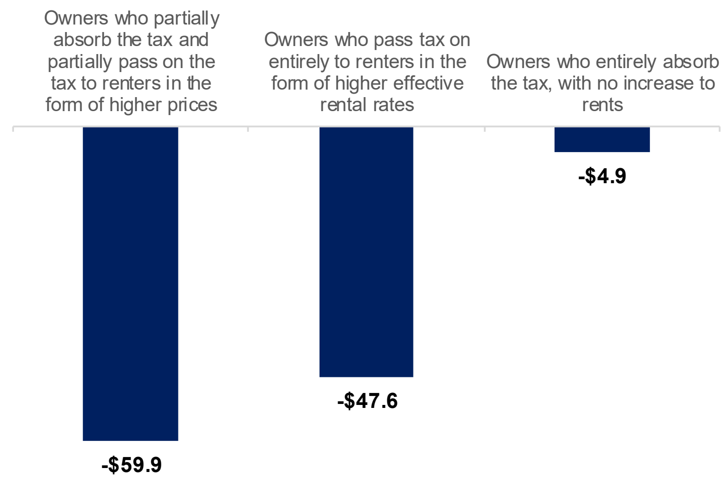
Summary impacts of the introduction of a sales tax

The net impact of a 6.625% sales tax would be a $112.4 million loss in economic activity.

The introduction of a 6.625% 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 6.625% sales tax would be a $112.4 million loss in economic activity. This $112.4 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.

Summary impacts of the introduction of a sales tax: lost revenue ($ millions), by scenario



Source: Tourism Economics

4. Economic & fiscal (tax) impacts of a 6.625% sales tax

Economic losses of a 6.625% sales tax

The introduction of a 6.625% sales tax would result in a total economic loss of $209.0 million and a reduction in the statewide workforce of nearly 2,100 total jobs.

The previous section outlined the "direct" impacts of a 6.625% sales tax. According to survey response data, as well as the notion of price-demand elasticity, the introduction of a 6.625% 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 6.625% sales tax increase would generate a $112.4 million loss in direct economic activity.

The $112.4 million in lost economic activity will have further negative impacts throughout New Jersey as the economic losses flow through the statewide economy. We estimate that the $112.4 million in direct economic losses will generate an additional $96.7 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 would amount to $209.0 million, including $65.2 million in lost labor income, and a reduction in the statewide workforce of nearly 2,100 total jobs.

Economic impacts of a 6.625% sales tax on New Jersey seasonal home rentals ($ millions & total jobs)

Total reduced economic impact ($ millions)	**-$209.0**
Reduction in direct impacts	-$112.4
Reduciton in indirect & induced impacts	-$96.7
Total reduced jobs impact	**-2,053**
Reduction in direct jobs	-1,109
Reduciton in indirect & induced jobs	-944
Total reduced labor income impact ($ millions)	**-$65.2**
Reduction in direct labor income	-$30.2
Reduction in indirect & induced labor income	-$35.0

Source: Tourism Economics

Fiscal (tax) impacts of a 6.625% sales tax

The introduction of a 6.625% sales tax would result in $51.3 million in total lost tax revenues, including $23.3 million in lost state and local taxes.

The reduced economic activity and resulting negative economic impacts would also lead to reductions in federal, state, and local tax revenues. Total lost tax revenue amounts to $51.3 million, including $23.3 million in lost state and local tax revenue and $28.0 million in lost federal taxes. State and local tax losses include a $6.7 million reduction in sales tax revenue, $2.3 million in lost personal income tax revenue, and $10.8 million in reduced property tax revenue.

Fiscal (tax) losses of a 6.625% sales tax on New Jersey seasonal home rentals ($ millions & total jobs)

Total reduction in taxes ($ millions)	**-$51.3**
Reduction in State & local taxes ($ millions)	**-$23.3**
Sales	-$6.7
Bed tax	-$0.8
Personal income	-$2.3
Property	-$10.8
Corporate	-$1.0
Social insurance	-$0.2
Excise and fees	-$1.6
Reduction in federal taxes ($ millions)	**-$28.0**
Corporate	-$4.1
Indirect business	-$2.4
Personal income	-$9.4
Social security	-$12.1

Source: Tourism Economics

Net impacts of a 6.625% sales tax

The introduction of a 6.625% sales tax would result in a net tax gain of $85.5 million.

The accompanying table summarizes the estimated impacts attributable to the introduction of a 6.625% sales tax on seasonal home rentals in New Jersey. As shown, the sales tax would lead to approximately $209.0 million in reduced economic activity, including $65.2 million in reduced labor income.

This lost economic activity would generate $51.3 million in lost tax revenue, while the 6.625% sales tax on seasonal rental revenue would generate $136.8 million in new tax revenues, resulting in a net tax gain of $85.5 million

Summary impacts of a 6.625% sales tax on New Jersey seasonal home rentals ($ millions & total jobs)

Reduced economic activity	-$209.0
Reduced labor income	-$65.2
Reduced jobs	-$2,052.6
Tax revenue from 6.625% sales tax	$136.8
Total seasonal home rental revenue	$2,064.9
Sales tax rate	6.625%
Lost tax revenue attributable to reduced economic activity	-$51.3
Net tax gain/loss	$85.5

Source: Tourism Economics

5. Impacts based on imputed rent

Imputed rent

The impacts outlined in previous sections of the report have assumed that only a portion (40%) 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 (60%) 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 property, 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 relationship 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 .

Direct economic impact based on imputed rent

The total direct economic impact based on imputed rent amounted to $5.1 billion in 2018.

The accompanying table summarizes the direct economic impacts of the seasonal home rental market in New Jersey based on imputed rent. As shown, total rental revenue amounted to nearly $4.1 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 $5.1 billion in 2018.

Summary direct economic impacts of seasonal second homes based on imputed rent ($ millions), 2018

Total direct economic impact based on imputed rent ($ millions)	**$5,096.3**
Rental revenue based on imputed rent	$4,090.6
Renter/owner spending	$1,005.8

Sources: Tourism Economics

Economic impacts based on imputed rent

The direct impact of $5.1 billion (based on imputed rent) generated a total economic impact of $9.3 billion in 2018.

The direct impact of $5.1 billion (including $4.1 billion in rental revenue based on imputed rent and $1.0 billion in renter/owner spending) generated nearly $9.3 billion in total economy activity statewide in 2018. This statewide economic impact of $9.3 billion included nearly $3.0 billion in total labor income, supporting nearly 95,000 total jobs.

Total economic impacts of seasonal second homes based on imputed rent ($ millions), 2018

	Impacts of rental revenue (based on imputed rent)	Impacts of renter/owner spending	Total impacts
Total economic impact ($ millions)	**$7,609.2**	**$1,659.7**	**$9,268.9**
Direct impact	$4,090.6	$1,005.8	$5,096.3
Indirect & induced impacts	$3,518.7	$653.91	$4,172.6
Total job impact	**74,716**	**20,122**	**94,838**
Direct jobs	40,369	10,479	50,849
Indirect & induced jobs	34,347	9,643	43,990
Total labor income impact ($ millions)	**$2,373.3**	**$599.5**	**$2,972.8**
Direct labor income	$1,098.7	$272.3	$1,370.9
Indirect & induced labor income	$1,274.6	$327.2	$1,601.8

Sources: Tourism Economics

Fiscal (tax) impacts based on imputed rent

Seasonal second homes generated nearly $2.3 billion in total tax revenues in 2018, including $1.2 billion in federal taxes and $1.0 billion in state and local taxes.

The $9.3 billion in total economic activity (based on imputed rent) generated significant federal and state & local tax revenues. We estimate that seasonal second homes generated nearly $2.3 billion in total tax revenues in 2018, including $1.2 billion in federal taxes and $1.0 billion in state and local taxes.

State and local taxes include $298 million in sales tax revenue, $101 million in personal income tax revenue, and $479 million in property tax revenue.

Fiscal (tax) impacts of seasonal second homes based on imputed rent ($ millions), 2018

Total taxes ($ millions)	**$2,275.1**
State & local taxes ($ millions)	**$1,032.9**
Sales	$298.3
Bed tax	$33.4
Personal income	$101.0
Property	$478.7
Corporate	$42.2
Social insurance	$7.5
Excise and fees	$71.9
Federal taxes ($ millions)	**$1,242.1**
Corporate	$182.4
Indirect business	$106.7
Personal income	$416.5
Social security	$536.5

Sources: Tourism Economics

6. Conclusion

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 $5.5 billion in economic activity in 2018, including $1.8 billion in labor income and nearly 58,000 total jobs.

The introduction of a 6.625% 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 on the 2018 rental season, we estimate that the introduction of a 6.625% sales tax would generate a total economic loss of $209.0 million, including a reduction of $65.2 million in labor income and nearly 2,100 lost jobs.

This economic loss of $209.0 million would also generate losses in tax revenue. We estimate that the economic loss would generate $51.3 million in lost tax revenue, including $28.0 million in reduced federal taxes and $23.3 million in reduced state and local taxes.

Appendix

Online survey

The following pages provide a copy of the online survey distributed to to New Jersey REALTORS® that manage or represent seasonal rental homes in Cape May, Ocean, Atlantic, and Monmouth Counties .

New Jersey Realtors® 2019

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The New Jersey Realtors® Issues Mobilization Fund is conducting a followup 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@njrealtor.com or
Michael Mariano at mmariano@oxfordeconomics.com.

About You

Company Name:

Your Name:

Title:

Phone Number:

E-mail address:

Online survey

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 was the average weekly rental rate in each of the following months for the 2018 season? Estimates are fine.

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

Comments

Online survey

New Jersey Realtors® 2019

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Please estimate the increases or decreases in average seasonal rental rates for your properties between 2017 and 2018.

	% change over prior year
2018 (compared to 2017)	

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	

Online survey

New Jersey Realtors® 2019

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What was the average number of weeks that were un-rented per property, either because of owner usage or lack of booking in 2018? Estimates are fine. (Do not include homes under construction or repair.)

	June (Including Memorial Day)	July	August (Including Labor Day)
2018			

Comments

Please provide the average number of weeks per property that were rented in the off-season (post Labor Day through pre-Memorial Day) for the 2017-2018 season.

2017/2018

Please estimate the average number of weeks per property that will be rented in the off-season (post Labor Day through pre-Memorial Day) for the current 2018-2019 season.

2018/2019

Online survey

New Jersey Realtors® 2019

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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.

Online survey

New Jersey Realtors® 2019

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How would you expect the market to respond to the introduction of a 6.625% 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	○	○	○	○	○
Renters will move towards "off-market" transactions to avoid the tax by using sites like VRBO.com	○	○	○	○	○

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Tourism Economics, headquartered in Philadelphia, is an Tourism Economics company dedicated to providing high value, robust, and relevant analyses of the tourism sector that reflects the dynamics of local and global economies. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, project feasibility analysis, tourism forecasting models, tourism policy analysis, and economic impact studies.

Our staff have worked with over 200 destinations to quantify the economic value of tourism, forecast demand, guide strategy, or evaluate tourism policies.

Tourism Economics is one of the world's leading providers of economic analysis, forecasts and consulting advice. Founded in 1981 as a joint venture with Oxford University's business college, Tourism Economics is founded on a reputation for high quality, quantitative analysis and evidence-based advice. For this, it draws on its own staff of 40 highly-experienced professional economists; a dedicated data analysis team; global modeling tools; close links with Oxford University, and a range of partner institutions in Europe, the US and in the United Nations Project Link.

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