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ECONOMIC IMPACT OF COMMERCIAL SHORT-TERM RENTALS IN NEW ORLEANS

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Summary of findings for Economic Impact of Commercial Short-term Rentals in New Orleans

Several types of short-term rentals have developed in cities throughout the United States. Overnight visitors to various communities have expressed a preference for accommodations other than traditional hotels, bed and breakfast services, and staying with family and friends. In 2016, the City of New Orleans created a framework to regulate short-term rentals with three separate license types, including commercial short-term rentals ("Commercial STRs") which are permitted in non-residential zones only. Commercial short-term rentals have a very different impact – both on the local economy and on communities – than Temporary or Accessory operators.

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Key Economic Findings from Commercial Short-Term Rental impact study based on visitor surveys and spending habits:

- The percentage of overnight visitors in New Orleans staying in other accommodations has reached almost 10% in 2015 based on the University of New Orleans Hospitality Research Center– and is projected to be over 12.5% by 2020 if this growth continues – with an estimated **70% or more of these visitors staying in Commercial STRs**.
- These visitors, based on tax collections by the Louisiana Department of Revenue, are projected to spend just over $480 million in 2018 on lodging, restaurants and bars, recreational and entertainment enterprises, retail stores, local transportation and other places in the city. **An estimated $350 million is related to visitors staying in Commercial STRs based on information regarding the number of Commercial STRs, their occupancy rates, and their average revenue per day.**
- The spending of $480 million supports close to 5,670 jobs and state and local taxes of $64 million, with **Commercial STRs responsible for 4,140 jobs and $47 million of the state and local taxes based on information from the U.S. Department of Commerc**e.
- Additionally, Commercial STRs encourage and facilitate new construction projects, leading to an injection of spending into the local economy, creating net new jobs throughout the economy, and generating local tax receipts even before the visitors arrive.

In addition to supporting the New Orleans tourism industry, Commercial STRs have a very different impact on communities than other license types. They:

- Do not operate in, nor affect, residentially-zoned neighborhoods
- Encourage the ongoing development and improvements of commercial areas in the city,
- Maintain and stabilize the return on investment for property owners in commercial areas,
- Promote redevelopment in commercial areas, particularly in blighted buildings, and
- Add to the overall economic improvement in the city, including additional jobs, earnings, along with state and local tax collections due to capital improvements, renovations, and other activities.

The role of Commercial STRs in supporting ongoing development in the commercial areas of the city is documented by the fact that, from 2015 to 2017, the number of mailing addresses in the Central Business District increased by over 18%, compared to a 2.6% increase throughout New Orleans. Almost 50% of all Commercial STR permits were issued in the Central Business District. Other Commercial STRs occurred in districts within New Orleans that similarly saw an increase in mailing addresses. These Commercial STRs did not negatively affect the city's overall housing market, based on information regarding housing prices and rental rates. The average price per square foot of a house dropped between 2016 to 2017 from $181 to $175, with prices fluctuating from neighborhood to neighborhood. And the average rental rate in New Orleans was $1,035 in January 2015 and $1,093 in July 2018, with the rental rate varying by studio, one bedroom, two bedrooms, and three bedrooms—an increase of just 5.6% over 3.5 years. **Housing parameters such as rental vacancy rates, rents for various properties, or the market value of various properties as collected by the Reinvestment Fund do not suggest that Commercial STRs have created an increase in housing prices or are creating a housing shortage.**

New Orleans mailing addresses in 2017 are still only about 86% of mailing addresses in 2005. Only in the Central Business District and St. Thomas Development have the mailing addresses increased rather substantially or over 300%. In 19 other neighborhoods, such as the Lower Garden District, mailing addresses have increased at a rate of about 1% to 34%. New Orleans still has some growing to do, and Commercial STRs contribute to the city's overall growth. These conclusions are fully in accordance with the underlying assumptions made by the Reinvestment Fund in the report, New Orleans – Market Value Analysis (June 11, 2018), namely: (1) public subsidies are scarce and cannot create a market by themselves, (2) public policy must leverage private investment, and (3) a community must build from its strength. Commercial STRs represent one of those strengths.

Economic Impact of Commercial Short-term Rentals in New Orleans

INTRODUCTION

Short-term rentals ("STRs") of properties for visitors and tourists have become an economic reality throughout the United States and, for that matter, in major cities internationally. This trend represents a response to the market environment in which different accommodations were considered more affordable, convenient, and compatible with certain market participants. STRs have been created by individuals and by companies as a response to this demand for other accommodations for visits to cities; however, STRs would not exist if there was not a genuine demand for their services.

Commercial STRs, which operate in non-residential zones only, support this tourism-related spending – and in addition, encourage and support capital spending and property development in the commercial sectors of the city.

As an example, according to the University of New Orleans Hospitality Research Center (HRC), the proportion of New Orleans overnight visitors in 2010 who preferred alternative accommodations (other than hotel/motel, bed and breakfast, and staying with family or friends) was 7.4% while by 2015 it was 9.6%, an increase of almost 30%. By 2020, the proportion of visitors staying in other accommodations will have jumped to 12.5%, maintaining this same growth rate. Keeping pace with this change in consumer preference is critical, especially in cities like New Orleans where tourism is a major industry. The significance of being aware of and responding to the preferences of visitors to New Orleans is illustrated by information developed by HRC and the United States Travel Association. It is estimated that over 20% of the jobs in the Greater New Orleans area, or roughly 120,000 jobs, are related to tourism. Within New Orleans, it is estimated that from 65,000 to 70,000 jobs are tourist-related, representing over 35% of all jobs within the city. Commercial STRs, which operate in non-residential zones only, support this tourism-related spending – and in addition, encourage and support capital spending and property development in the commercial sectors of the city.

Public discussion regarding the regulation of STRs is relatively new, but the debate about which areas of a city are appropriate for transient use is not. Cities have used zoning as a method to regulate land use for many years. New Orleans has been focused on arriving at a sound policy regarding STRs that accommodates the evolving preferences of its visitors while maintaining its charm and culture. In response to public discussions regarding short-term rentals among residential areas, mid-use areas, and commercial districts, the City of New Orleans created its short-term rental guidelines based on a study by the City Planning Commission. In September 2015, the City Planning Commission of New Orleans provided a preliminary short-term rental study focusing on the regulation of short-term rentals from a land-use perspective[1]. On April 1, 2017, the City of New Orleans created three types of short-term rental licenses[2]:

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1 City Planning Co*mmission, Planning and Special Projects Committee Meeting, Tuesday, September 29, 2015,* Preliminary Short Term Rental Study.

2 City Planning Commission, Tuesday, April 24, 2018, 2018 Short Term Rental Study Public Hearing Report.

Accessory short-term rentals:	Owner-occupied dwellings, where either the property owner rents out up to three bedrooms in his or her dwelling unit or rents out the other half of a two-family dwelling. The owner shall occupy the unit and be present during the guest's stay.
Temporary short-term rentals:	Any dwelling unit that can be rented out on a short- term basis up to 90 days per year, except in the Vieux Carre district.
Commercial short-term rentals:	Dwelling units in non-residential districts with a limit of five guest rooms but no limit on the number of nights per year.

On March 22, 2018, the City Council of New Orleans directed the City Planning Commission to conduct a follow-up study of the City's short-term rental regulations. On April 24, 2018 the City Planning Commission held a public hearing to keep the public informed about the study and to seek feedback regarding possible changes to any rules and regulations.

This report will provide information regarding the economic impact of Commercial STRs, since these commercial licenses do not affect residential communities, and to focus on the housing market and its ability to accommodate this type of short-term rental. STRs, regardless of their status as Accessory, Temporary, or Commercial, will have an economic impact with respect to the tourist trade; however, STRs in residential areas can have other impacts on the neighborhood and city that could offset some of the gains from the economic impact. Commercial STRs, on the other hand, contribute to the development of commercial districts of the city – such as the redevelopment of blighted buildings – while accommodating the evolving preferences of visitors.

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The importance of Commercial STRs are reinforced by a recent report released by the Reinvestment Fund, New Orleans – Market Value Analysis (June 11, 2018). The normative assumptions made by the Reinvestment Fund are the following:

- Public subsidy is scarce and public subsidies alone cannot create a market.
- Public policy must leverage private investment or create conditions for investments to succeed.
- In distressed markets, build from strength by investing near strong assets.

Commercial STRs represent one of the strengths of the New Orleans economy, so we will focus on highlighting their associated economic impact.

Economic Impact of Tourism in New Orleans

In 2017, an estimated 11,000,000 visitors came to New Orleans, according to the UNO Hospitality Research Center. These visitors spent $7.51 billion or approximately $690 per visitor. New Orleans, Inc.[3], as well as the Louisiana Department of Culture, Recreation, and Tourism, utilized the services of D. K. Shifflet & Associates (DKSA) to estimate the number of visitors to New Orleans, and the results were 17.7 million visitors spending $8.7 billion or close to $500 per visitor. The ratio of visitor spending to income earned by New Orleans residents in all occupations is estimated to be 71% using the UNO estimates of visitor spending, and 82% using the DKSA estimates of visitor spending. Both estimates indicate that visitor spending is a dominant part of the New Orleans economy.

New Orleans has about 28 visitors per person living in New Orleans, based on the UNO study, and about 46 visitors per person according to the DKSA's methodology. This compares to about 28 visitors to Orlando, Florida per person living in the Orlando metropolitan area; 11 visitors per person living in Atlanta, Georgia; and 18 visitors per person living in Chicago, Illinois. Las Vegas, Nevada has a visitor per population of 55 so it is substantially larger than the New Orleans ratio based on UNO estimates and only slightly higher than the New Orleans based on the DKSA estimates. The New Orleans ratio of visitors to population is noteworthy and very suggestive of the role of tourism in its overall economy.

Visitor spending can be traced through the following sequence as illustrated in Figure 1. Visitor spending represents net new spending in the New Orleans economy that otherwise would not be present if it were not for the visitors coming to the city. This net new spending initiates a series of

Figure 1. Economic Impact of Visitor Spending*

Direct Spending by Visitors

Accommodations (including short-term rentals), dining out, purchases of food for home consumption, entertainment, recreation, transportation, and related travel services.

Indirect Spending Related to Visitor Spending

Utilities, financial services, rental cars, transportation administration, tourism promotion, tourist development, security and safety, repair services, and other such services for activities needed by tourist industry.

Induced Spending Related to Visitor Spending

Spending by employees of companies servicing visitors including wholesale and retail trade, personal and business services, transportation and utilities, housing and construction services, and other spending connected to employees of companies servicing visitors.

Net New Taxes for State and City of New Orleans and other Municipalities

Net new spending by visitors and the resulting impact on other industries and on the wages and salaries of persons working in these industries will generate net new tax receipts for Louisiana, the City of New Orleans, and other municipalities since some persons who work in New Orleans could purchase items in other parishes or may live in other parishes.

*Based on T*he Economic Impact of Out-of-State Visitor Spending in Florida*, Tourism Economics, An Oxford Economics Company, September 2016.

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3 Formerly the New Orleans Convention and Visitors Bureau.

events that can be felt throughout the entire economy. The visitors spend directly for accommodations, including hotels, motels, bed and breakfast facilities, and short-term rentals; dining at restaurants and cafes and purchasing food for consumption at their accommodations; bars and nightclubs; entertainment and recreation; transportation including streetcars, taxis, rental services, and other transportation services; retail purchases; and other goods and services that a visitor might purchase. Each of these expenditures represents net new spending that otherwise would not have occurred in New Orleans if the visitors had selected to go to another destination.

The net new spending by these visitors leads to indirect spending by the various companies, nonprofits, and public agencies to provide the goods and services that visitors demand. This includes goods and services from utilities, to cleaning services, to additional spending at tourist attractions such as the World War II Museum and the Aquarium of the Americas, additional transportation services, purchases by restaurants and bars to serve the demand of the visitors, and other such establishments that provide goods and services to visitors. These facilities must hire workers to provide the goods and services to visitors, and these workers will purchase goods and services themselves.

Net new spending by visitors creates a ripple effect on the City's overall economic activities, thereby creating jobs – not only in the tourist sector but also in other sectors of the economy. All of these activities then generate net new tax dollars for the state of Louisiana and for the City of New Orleans.

Net new spending on construction activities has the same economic impact as described in Figure 1, leading to net new jobs and state and local tax receipts, as well as improved commercial districts. Commercial STRs encourage and facilitate construction spending in commercial districts. This encouragement and facilitation of construction spending separates Commercial STRs from other short-term rental license types in New Orleans.

Estimates of jobs created by net new spending by visitors to New Orleans for the state of Louisiana and the City of New Orleans, using standard economic methodology, are as follows[4]:

- A $1 million increase in visitor spending in New Orleans for accommodations will lead to an estimated additional 14.2 jobs in the state and 7.4 jobs in New Orleans;
- A $1 million increase in construction spending on upgrading commercial properties leads to an estimated additional 14.4 jobs in Louisiana and 4.4 jobs in New Orleans;
- Net new spending of $1 million at restaurants and bars will lead to an estimated additional 23.9 jobs in Louisiana and 13.0 jobs in New Orleans; and
- Net new spending of $1 million by visitors for recreation and entertainment leads to an estimated additional 15.7 to 25.9 new jobs in Louisiana and an additional 13.0 jobs in New Orleans depending on the type of spending by the visitor.

An estimated 35% to 40% of total sales tax collections in the City of New Orleans is related to the tourist industry.

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Another metric for analyzing the economic impact of tourism in New Orleans is to identify employment by business sector directly related to visitors coming to New Orleans. This employment is identified in Figure 2. Overall, estimated direct employment associated with visitor spending in 2017 is 67,678, with these jobs being spread around accommodations, restaurants and bars, entertainment and recreation facilities, transportation, wholesale and retail trade, and all others. This is one more metric quantifying the significance of the tourist industry to the New Orleans economy. Direct tourism employment in the New Orleans Metropolitan area approaches 120,000 employees.

4 All of these estimates are based on economic multipliers (Louisiana, Type II) from Regional Input-Output Model System (RIMS II), Bureau of Economic Analysis, U.S. Department of Commerce for the state of Louisiana and for the City of New Orleans.

Figure 2. Estimated Direct Employment Related to Tourism in New Orleans

*Information from UNO Hospitality Research Center and the U.S. Travel Association

Even before visitors come to New Orleans, Commercial STRs initiate spending in the New Orleans economy by encouraging and facilitating net new construction activities in the commercial districts. This spending directly affects the economy, while providing structural and cosmetic upgrades to underutilized properties that enhance the attraction of visitors to the New Orleans area.

Tourism will gain from other economic developments in the city, but these developments are still in the very early stages, and no one can project how quickly they'll materialize and how much benefit they will provide to the New Orleans economy. In the meantime, presently and for the foreseeable future, tourism plays and will continue to play a major role in the ongoing employment, earnings, and local tax collections in New Orleans. The City must make regulatory decisions consistent with the importance of tourism to the economic success of the city, and to maintain the cultural characteristics of the city that make it an attractive place to visit.

ECONOMIC IMPACT OF COMMERCIAL SHORT-TERM RENTALS AND TOURISM

The tourism industry is a competitive industry and must respond to the preferences of visitors. A study published in Procedia: Social and Behavioral Sciences in 2012 found that there were several factors influencing the rise of alternative accommodations, including value for money, a more homely atmosphere, and a local touch[5]. This study notes the rather substantial literature that exists on exploring the reasons for the increase in alternative accommodations. Consumers have been indicating a preference for alternatives in the accommodations marketplace, and in 2012, the U.S. Conference of Mayors voted in favor of a resolution that supported short-term rentals and creating a reliable method for taxing them in the same manner that other rentals were taxed[6]. In January 2016, the New Orleans City Planning Commission produced a study, Short Term Rental Study, in which the goals and objectives of the City's policy on short-term rentals were to ensure the safety of visitors, protect neighborhood character, enable economic opportunities, generate revenue for the City, and others.

As noted previously, New Orleans, according to the University of New Orleans Hospitality Research

5 N. Gunasekaran and Victor Anandkumar, *Factors of Influence in Choosing Alternative Accommodations: A Study with Reference to Pondicherry, a Coastal Heritage Town*," Elsevier, 2012.

6 United States Conference of Mayors, *Promotion of Economic Development Through the Visitors Industry,"* June 16, 2012.

Center (HRC), had 7.4% of visitors who stayed overnight in 2010 preferring other accommodations (other than hotel/motel, bed and breakfast, and staying with family or friends), while by 2015 it was 9.6%, an increase of almost 30%. Maintaining this steady gain in preference for other accommodations will increase the percentage of visitors preferring other accommodations to around 12.5%. This increase in the number of visitors who have expressed a preference for other accommodations provides signals to the marketplace. Markets, including the tourism market, must be sensitive to these signals.

The role of short-term rentals in the New Orleans tourist economy can be quantified based on state tax collections that have been designated for the New Orleans Quality of Life Fund in House Bill 224 or Act 333 of the 2017 Louisiana Regular Legislative Session[7]. This act levied a sales tax on short-term rentals with 3.97% of the 5% tax going to the New Orleans Quality of Life Fund. One percent of the tax goes to the state's general fund and the remaining 0.03% goes to the tourism promotion district. The tax revenues from this tax and the estimated short-term rentals revenues are posted in Table 1 along with estimates for short-term rental revenues from Commercial licenses.

The information from August 2017 through April 2018 are actual collections related to short-term rental accommodations. The taxes from May 2018 through January 2019 are estimates provided by the Louisiana Department of Revenue to be used in the appropriation of these funds to the New Orleans Quality of Life Fund. The estimates from May 2018 through January 2019 are very cautious since the Louisiana Department of Revenue had no information on exactly the number of short term rentals that were occupied, the rate being paid on a daily basis, the seasonality associated with short-term rentals, or the overall occupancy rate associated with the short-term rentals per month or per year. In addition, this was a tax on entities that had not been paying the tax, so there are administrative start-ups, and this will be true of any new tax that might be imposed.

The taxes paid by and the estimated gross receipts of Commercial STRs can be estimated based on the number of spaces available during the year (629,625) as based on the number of commercial licenses, the occupancy rate (73% based on Sonder's occupancy rate), and the average nightly rate for each room ($177 based on Sonder's averages). Commercial STRs had estimated revenues of $73.4 million, or about 72% of the revenues generated by all STRs. This estimate is relatively high if compared to the fact that Commercial STRs make up about one-third of the days available during the year of all STRs[8]. However, the average daily rate for other STRs is much lower for advertised available rooms, with some rates being in the mid-$30s; and the occupancy rates are typically lower, with rates being in the 50% to 60% range. These factors affect gross receipts received by a STR. In addition, as noted previously, the state probably did not collect all the taxes that were due, since it was applying a tax to a group of businesses that had not paid the tax before. Commercial STRs were easy to recognize by the Louisiana Department of Revenue, and these companies had experience in dealing with tax authorities.

Estimated state tax collections from Commercial STRs and the revenues associated with these taxes are given in Table 1. Monthly tax collections from all STRs and from Commercial STRs are illustrated in Figure 3.

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7 This bill was offered by Helena Moreno.

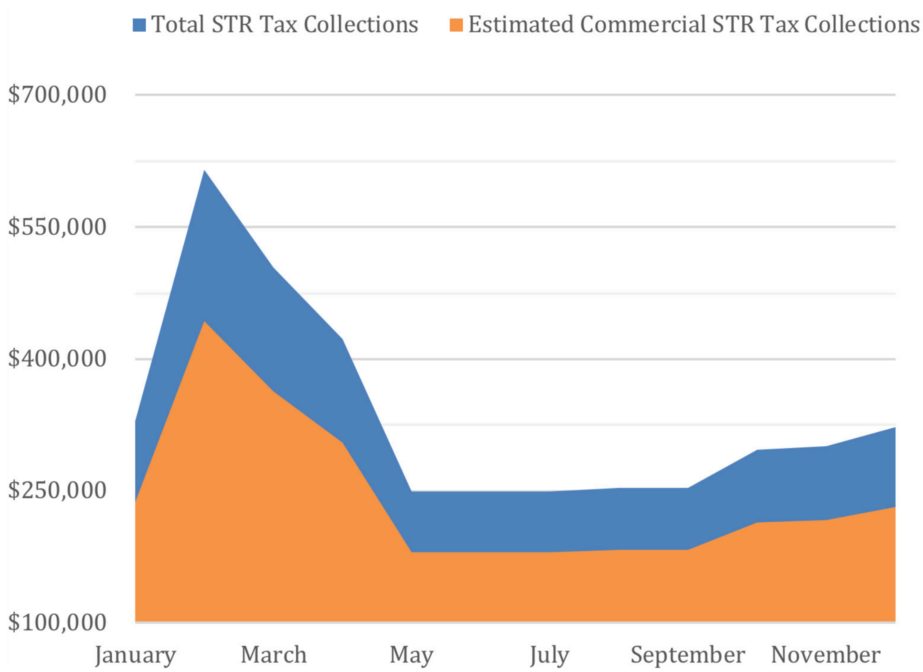
8 Of the permits issued by the City Planning Commission as of the Spring 2018, temporary permits represented 26.8% of the days; accessory permits represented 40.5% of the days; and commercial permits represented 32.7% of the days. In terms of just permits, temporary permits represent 52.5% of all permits; accessory permits are 27.4% of all permits; and, commercial permits make up 20.1% of all permits.

Table 1. Sales Tax Receipts for New Orleans Quality of Life Fund and Estimated Short Term Rental Revenues

	New Orleans Quality of Life Fund* from all STRs	Actual v Estimated Collections	Estimated Short Term Rental Revenues from all STRs**
Aug-16	$6,646	Actual Revenues Collected	$167,406
Sept-17	$500,151		$12,598,262
Oct-17	$297,509		$7,493,929
Nov-17	$300,688		$7,574,005
Dec-17	$322,784		$8,130,579
Jan-18	$328,845		$8,283,249
Feb-18	$615,413		$15,501,587
Mar-18	$504,275		$12,702,141
Apr-18	$423,186		$10,659,597
May-18	$250,000	Projected Revenues to be Collected as projected by Louisiana Department of Revenue	$6,297,229
Jun-18	$250,000		$6,297,229
Jul-18	$250,000		$6,297,229
Aug-18	$253,399		$6,382,834
Sept-18	$253,399		$6,382,834
Oct-18	$297,509		$7,493,929
Nov-18	$300,688		$7,574,005
Dec-18	$322,784		$8,130,579
Jan-19	$328,845		$8,283,249
Calendar year, 2018	**$4,049,498**		**$102,002,442**
Commercial STRs, estimated	Based on relative occupancy rates, rental rates, availability of rooms		
	$2,891,729		**$73,441,758**

*Louisiana Department of Revenue
**calculations prepared by the author

Figure 3. Monthly Revenues from Short-term Rentals



Commercial STRs in 2018 are projected to lead to visitor spending of $352 million or over 5% of all visitor spending in New Orleans. Estimated visitor spending by those staying in Commercial STRs is detailed in Table 2, along with the economic feedback related to economic activity, employment, and wages and salaries throughout the city. The estimates are based on past studies, showing that overnight visitors who stay in other accommodations spend about 93% of what hotel visitors spend, and about twice as much as visitors who stay with family or friends[9].

9 New Orleans Area Visitor Profile, 2015FY, University of New Orleans, Hospitality Research Center.

Table 2. Economic Impact of Visitor Spending by Commercial STRs Rentals (all dollars in millions)

Categories of Spending by Visitors Staying in Short-term Rentals	Estimated Spending by Visitors Staying in Short-term Rentals	Economic Impact from Direct, Indirect, and Induced Ripples			
		Estimated Economic Activity Associated with Visitor Spending	Estimated Jobs Associated with Visitor Spending	Estimated Personal Earnings Associated with Visitor Spending	Estimated State and Local Tax Collections Associated with Visitor Spending including sales tax on direct purchases by visitors
Lodging	$80.45	$112,57	593	$16.21	$9.56
Restaurants	$102.71	$148.99	1,310	$35.84	$14.38
Bars and Nightclubs	$37.01	$53.73	472	$14.67	$5.40
Entertainment and Recreation	$39.93	$61.98	999	$31.10	$8.03
Local Transportation	$17.30	$27.52	72	$4.38	$0.66
Shopping	$62.78	$90.74	575	$16.50	$8.03
Gaming	$11.61	$17.30	118	$3.65	$0.51
Total	**$351.79**	**$512.90**	**4,138**	**$122.42**	**$46.57**

Source: author and use of Regional Input-Output Model System (RIMS II), U.S. Bureau of Economic Analysis

Commercial STRs lead to:

$351.8
million
of direct net new spending in New Orleans

$512.9
million
in overall economic activity

4,138
jobs

Approximately
$47
million
in state and local taxes

Given the preference of visitors and the choices available to leisure travelers, it is not clear that these visitors would merely alter their accommodation choices within New Orleans. These visitors have the ability to choose other destinations that permit them the flexibility of selecting locations that have accommodations in line with their consumer preferences, thereby bringing in fewer visitors and hurting New Orleans' tourist industry.

HOUSING MARKET AND SHORT-TERM RENTALS

Population growth in New Orleans is the first place to focus as we examine the housing market and its adjustments to an expansion in any industry. Figures 4a and 4b provide summary statements about what has happened in New Orleans with respect to the population over the long-term. Figure 4a shows the actual population in New Orleans starting in 1960. The population fell from over 600,000 in 1960 to 485,000 in 2000 and to around 455,000 in mid-2005. The population decline was consistent except for a jump in population in 2000 but it immediately started its decline again in 2001. The population decline from 2005 to 2006, a population reduction approaching 250,000 persons, was dramatic due to Hurricane Katrina.

Figures 4a and 4b. Population and Growth Rates of Population, New Orleans

Figure 4a

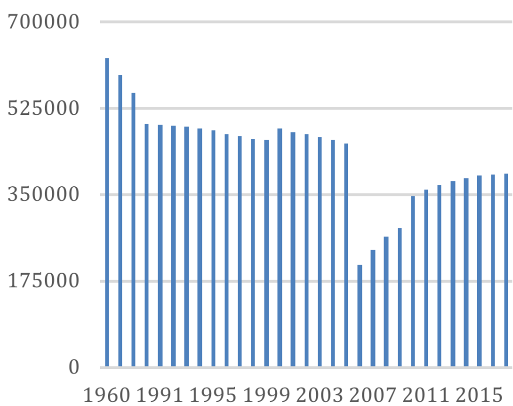
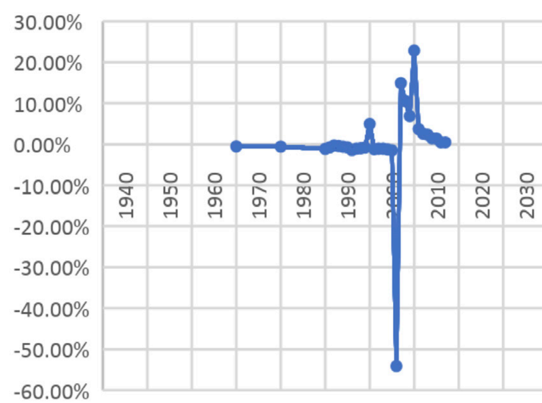


Figure 4b



Source: U.S. Census

The City's population started its rebuilding in 2006 and 2007, an increase that has continued through 2017. The population in 2017 is about 86% of the 2005 population. However, the growth rates have changed as illustrated in Figure 4b. Since 2011, the population's growth rate has declined each and every year. In 2016 and 2017, the growth in population in New Orleans amounted to about 0.45% compared to growth rates of around 1.4% in 2014 and 2015 and growth rates around 2.5% in 2013 and 2012. The rate of population growth in 2016 and 2017 was higher than the growth in Louisiana, but below the growth in the U.S. population.

This relatively slowing population growth in New Orleans since 2011 suggests that the city is back to a more normal population growth scenario as opposed to the large gains due to those individuals and families returning after Katrina. The population growth in New Orleans is now related to economic development opportunities such as increased tourism, development of the medical district, growth in technology activities, or another economic endeavor.

The city still has room to grow; families who lived in New Orleans prior to Katrina may still want to return at an appropriate time; but, the reality is these individuals have settled into other areas. At this time, expanded economic opportunity bringing jobs and new business development will drive the growth of New Orleans going forward. Where this population growth has occurred across the city has been concentrated in several neighborhoods. This is clearly demonstrated in the number of mailing addresses in 2017 relative to the number of mailing addresses in 2005, just before Katrina struck. These data are gathered and maintained by the New Orleans Data Center[10]. A map of the 73 neighborhoods in New Orleans is illustrated in Map 1 with the change in mail addresses by neighborhoods from 2005 to 2017 in Tables 3a, 3b, 3c, and 3d. These neighborhoods represent distinct areas in New Orleans that

10 The data comes from www.datacerterresearch.org. The interpretation of the data is based on the author's analysis.

are identifiable to residents of the city and are visible to visitors to the city and certainly encourage visitors to see certain neighborhoods for historical reasons or because of an array of restaurants, entertainment, and/or culture.

Map 1. Neighborhood Reference Map (Data Center, New Orleans).

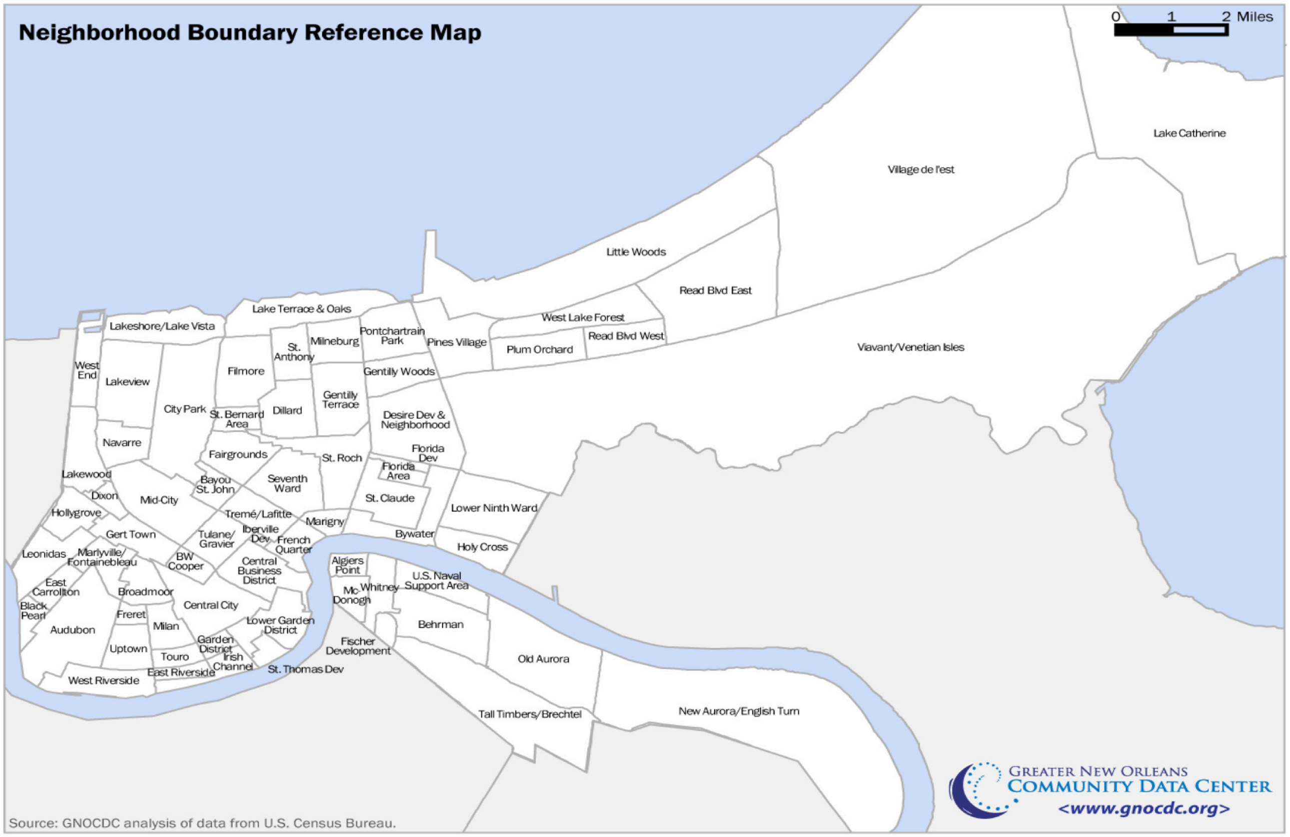


Table 3 is divided into four parts according to the rates of change in the mailing addresses in each neighborhood which is an indicator of the economic growth within each neighborhood:

(1) Table 3a identifies the 21 neighborhoods that have matched or increased the number of mailing addresses in 2017 compared to the number of mailing addresses in 2005, with these neighborhoods having considerable commercial districts within them. These neighborhoods include the Central Business District and St. Thomas Development where the mailing addresses have increased three-fold. Commercial STRs have located in many of these neighborhoods listed in Table 3a. Some Commercial STR operators, such as Stay Alfred, only locate in the Central Business District. Commercial STRs have certainly been one of the drivers in the economic expansion of a number of these neighborhoods. In 2005, these neighborhoods represented 22.5% of all mailing addresses in New Orleans, but in 2017 these neighborhoods represent almost 28%.

Table 3a. New Orleans Mailing Addresses in 2017 being 100% or higher of mailing addresses in 2005 2005-2017 (ratio is number of mailing addresses in 2017 compared to number of mailing addresses in 2005)

Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio	Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio
Central Business District	1316	4046	3.07	Tulane/Gravier	1830	1909	1.04
St. Thomas Development	386	1177	3.05	French Quarter	4106	4256	1.04
Fischer Development	300	406	1.35	East Riverside	1539	1588	1.03
Gert Town	1513	1787	1.18	East Carrollton	2286	2354	1.03
Algiers Point	1322	1506	1.14	Leonidas	3726	3791	1.02
Lower Garden District	4406	4992	1.13	Fairgrounds	3091	3135	1.01
Mid-City	6634	7162	1.08	Marlyville/ Fontainebleau	3010	3047	1.01
Black Pearl	1115	1181	1.06	Dixon	631	635	1.01
Marigny	2133	2259	1.06	Whitney	1006	1012	1.01
Irish Channel	1973	2059	1.04	West Riverside	2838	2854	1.01
				Lake Terrace & Oaks	688	690	1.00

Source: www.datacenterresearch.org

(2) Table 3b represents those neighborhoods that have accomplished having in 2017 about 90% to 99% of the mailing addresses present in 2005 just prior to Hurricane Katrina. These are neighborhoods with commercial districts in which Commercial STRs can continue to be active in generating capital improvements and economic growth. In 2005 the neighborhoods listed in Table 3b represented 36.3% of all mailing addresses in New Orleans and in 2017 they represent 38.0% of all mailing addresses. These neighborhoods are relatively larger in terms of mailing addresses but are not absolutely larger.

Table 3b. New Orleans Mailing Addresses in 2017 being 90% to 99% of mailing addresses in 2005
2005-2017 (ratio is number of mailing addresses in 2017 compared to number of mailing addresses in 2005)

Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio	Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio
Central City	8175	8160	0.99	**Old Aurora**	6241	5985	0.96
Uptown	3329	3319	0.99	**Pontchartrain Park**	1024	979	0.96
New Aurora/English Turn	2127	2112	0.99	**Seventh Ward**	6470	6127	0.95
Audubon	7576	7460	0.98	**Gentilly Terrace**	4417	4168	0.94
City Park	1670	1642	0.98	**Lakewood**	786	735	0.94
Tall Timbers/Brechtel	5504	5409	0.98	**Read Blvd East**	3099	1414	0.93
Lakeshore/Lake Vista	1608	1580	0.98	**Navarre**	1528	3181	0.93
Garden District	1216	1193	0.98	**Milan**	3452	3181	0.92
Bywater	2570	2514	0.98	**McDonogh**	1270	1170	0.92
Touro	1829	1773	0.97	**St. Claude**	4490	4039	0.90
Bayou St. John	2292	2199	0.96	**Broadmoor**	3139	2816	0.90

Source: www.datacenterresearch.org

(3) Table 3c represents those neighborhoods that have accomplished having in 2017 about 80% to 89% of the mailing addresses they had in 2005. These neighborhoods represented 28.4% of all mailing addresses in 2005 and in 2017 they represent 26.3% of all mailing addresses.

Table 3c. New Orleans Mailing Addresses in 2017 being 80% to 89% of mailing addresses in 2005
2005-2017 (ratio is number of mailing addresses in 2017 compared to number of mailing addresses in 2005)

Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio	Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio
Read Blvd West	2107	1876	0.89	**Tremé/Lafitte**	3556	2945	0.83
Little Woods	16504	14647	0.89	**West End**	2711	2239	0.83
Freret	1014	891	0.88	**St. Roch**	4735	3883	0.82
Dillard	2608	2268	0.87	**Lakeview**	4711	3857	0.82
Pines Village	1864	1619	0.87	**Holy Cross**	2240	1833	0.82
Filmore	2831	2433	0.86	**Milneburg**	2273	1834	0.81
Behrman	3878	3265	0.84	**Plum Orchard**	2488	2002	0.80
Hollygrove	2751	2311	0.84	**Gentilly Woods**	1512	1205	0.80

Source: www.datacenterresearch.org

(4) Table 3d represents those neighborhoods that have not yet made 80% of the mailing addresses that they had in 2005. Neighborhoods Part 4 has a large range of neighborhoods going from the Florida Development in 2017 having only 3% of the mailing addresses as in 2005 to St. Anthony with 79% of the mailing addresses that were present in 2005. In 2005 these neighborhoods represented 12.8% of all mailing addresses in New Orleans and in 2017 they represent 7.95 of all mailing addresses.

Table 3d. New Orleans Mailing Addresses in 2017 being 80% to 89% of mailing addresses in 2005
2005-2017 (ratio is number of mailing addresses in 2017 compared to number of mailing addresses in 2005)

Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio	Neighborhoods, increased mailing addresses since 2005	2005	2017	Ratio
St. Anthony	2450	1924	0.79	**Florida Area**	1351	798	0.59
Lake Catherine	733	540	0.74	**West Lake Forest**	3822	2173	0.57
Viavant/Venetian Isles	616	446	0.79	**B.W. Cooper**	1269	580	0.46
Desire Dev & Neighborhood	1555	1115	0.72	**Lower Ninth Ward**	5363	2003	0.37
Village de l'est	3948	2827	0.72	**Iberville Development**	830	195	0.23
U.S. Naval Support Area	1404	906	0.65	**Unknown (could not be geocoded)**	276	39	0.14
St. Bernard Area	1936	1176	0.61	**Florida Development**	460	13	0.03

Source: www.datacenterresearch.org

Twenty-one out of 73 neighborhoods had an increase in mailing addresses from 2005 through 2017, with the most noticeable neighborhoods being the Central Business District and the St. Thomas Development. The mailing addresses in these two neighborhoods had 1,706 mailing addresses in 2005 and 5,223 mailing addresses in 2017 or going from just under 1% of all mailing addresses in the City to almost 3% of the total mailing addresses in the city. Mailing addresses in these two neighborhoods increased by three times from 2005 to 2017, with Commercial STRs playing a role in this growth given that almost 50% of Commercial licenses for STRs were in the Central Business District.

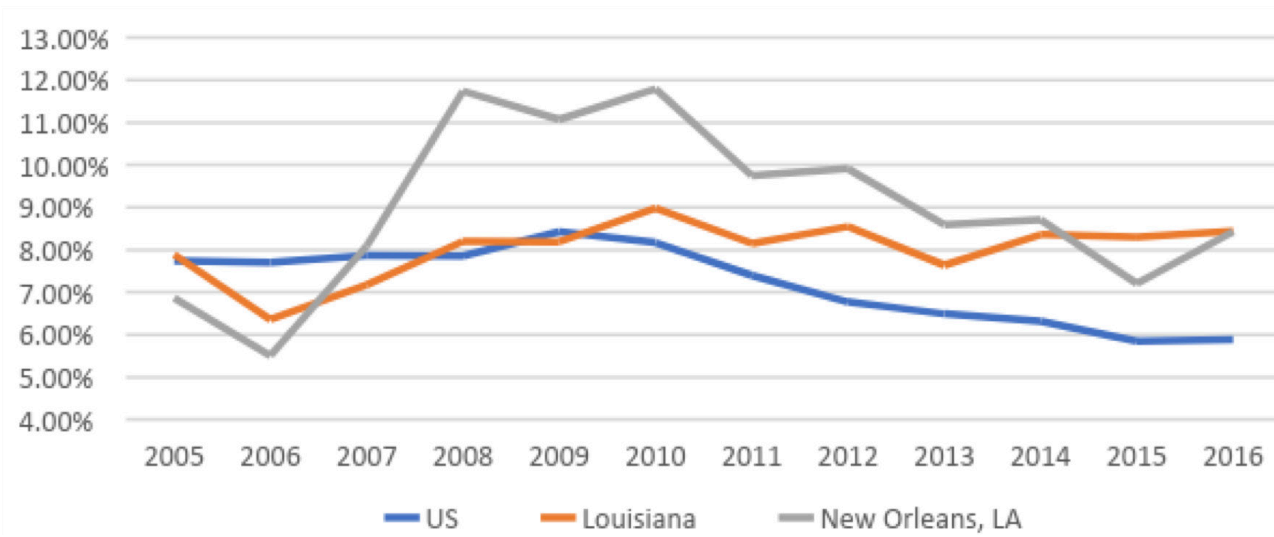
In addition to the Central Business District and the St. Thomas Development, other neighborhoods that had positive increases in mailing addresses were the Lower Garden District, the French Quarter, Marigny, Tulane/Gravier, Mid-City, Central City, and Gert Town, all in the general downtown area as shown on Map 1. The neighborhoods in Table 3a increased from as low as 1% to as much as an 18% in Gert Town on the east bank, and 35% in Fischer Development on the west bank. Of the neighborhoods listed in Table 3a, over 60% of these neighborhoods represent areas in which commercial developments can and have taken place.

Tables 3a-3d identify all seventy-three neighborhoods according to the number of mailing addresses in 2005 as compared to the number of mailing addresses in 2017. Twenty-one neighborhoods had more mailing addresses in 2017 than in 2005 though most of these were relatively small increases. The Central Business District and the St. Thomas Development had the most growth; two of the neighborhoods were on the west bank, Fischer Development and Algiers Point; and, the other neighborhoods had modest growth. Twenty-two neighborhoods had in 2017 from 90% to 99% of the mailing addresses that existed in 2005. Sixteen neighborhoods had in 2017 from 80% to 89% of the mailing addresses that existed in 2005. Fourteen neighborhoods had 79% or less of the mailing addresses that existed in 2005. In total, New Orleans neighborhoods had 16,923 fewer mailing addresses in 2017 than in 2005. New Orleans still has growth capacity for businesses and housing developments.

This capacity for growth is also illustrated by vacancy rates for rental apartments and other facilities in New Orleans and real gross rent paid from 2005 to 2016 in Figures 5 and 6. In New Orleans, about 54% of the population are renters compared to about 35% statewide[11]. The average gross rent from 2012 through 2016 was $929. In Figure 5 the Rental Vacancy Rate is illustrated for the United States, Louisiana, and New Orleans. The vacancy rate for New Orleans illustrated more fluctuations than either the U.S. vacancy rate or the Louisiana vacancy rate, but this can be related to the aftermath of Katrina with rental units becoming available but the population had not grown sufficiently as of 2010 and 2011.

In 2015 and 2016 the New Orleans rental vacancy rate is in line with the vacancy rate across the state.[12] There are many factors affecting vacancy rates, but these factors do not vary across the geographic regions over time so the downward movement of vacancy rates from 2010 in New Orleans and in the United States suggest an improving economy. There was a slight upturn in the vacancy rate in New Orleans in 2016, but it was still lower than it was in 2010. The New Orleans vacancy rate has been consistently higher than the U.S. vacancy rate since 2008.

Figure 5. Rental Vacancy Rate for U.S., LA, and New Orleans 2005 through 2016*



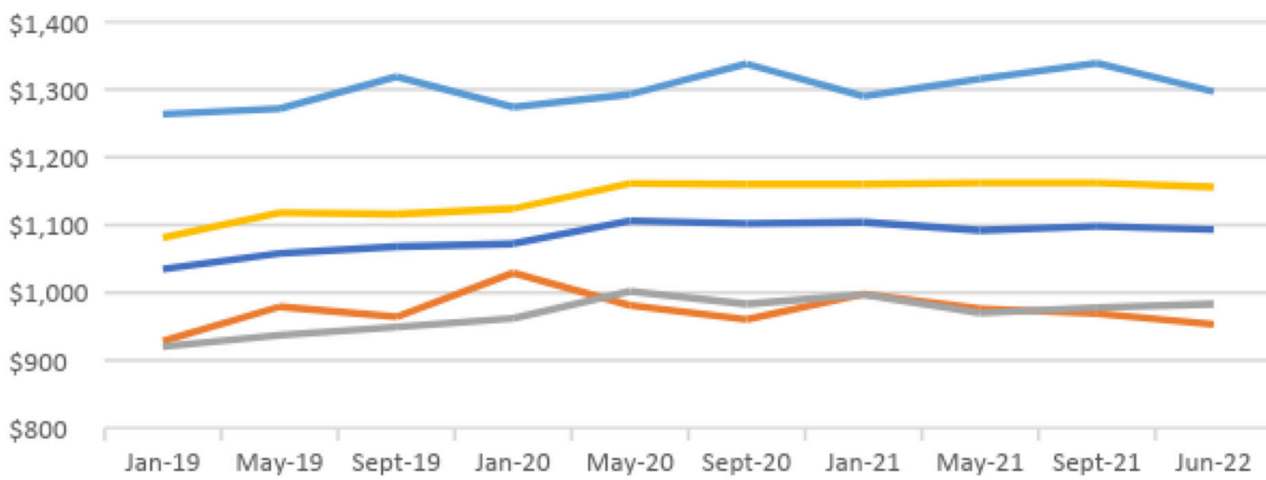
*2017 vacancy rates to be published in September 2018.

In Figure 6 the average rental rate for various rental properties in New Orleans is illustrated. The most outstanding feature of this figure is the relative stability of the rents for each type of rental property, from studios to three-bedroom apartments. Rates increase modestly, but for all types of rental units, the average rent in January 2015 was $1,035 while in May 2018 this average rental rate was $1,093 per month or about a 1.6% increase each year. Studio rates in May 2018 were actually lower than in January 2016. **The market information suggests some stability in the market over this time period, which is the same time period in which STRs were attracting attention – and the time period in which the City Planning Commission, at the request of the City Council, began issuing permits for short-term rentals.**

11 Census Bureau (quick facts). The Census estimates only run through 2016. We have other information regarding 2017.

12 The vacancy rate for 2017 will be released in September 2018.

Figure 6. Rents for Various Rental Properties, January 2015 – May 2018.



Source: rentcafe.com

Short-term rentals have not caused the market for properties in New Orleans to increase sharply in price, based on mailing address data in the various neighborhoods from 2005 through 2018, the vacancy rate for New Orleans as compared to the vacancy rate for the U.S. and for Louisiana, and the relative stability of the rental rates from January 2015 through May 2018. This conclusion is further supported by a recent report released by the Reinvestment Fund, *New Orleans – Market Value Analysis* (June 11, 2018). The normative assumptions made by the Reinvestment Fund are the following:

- Public subsidy is scarce and public subsidies alone cannot create a market;
- Public policy must leverage private investment or create conditions for investments to succeed; and
- In distressed markets, build from strength by investing near strong assets.

This Reinvestment Fund report also mentioned new dynamics for the New Orleans market, including some rising home prices in neighborhoods, declining foreclosures, and vacant land, some shifting renter/owner patterns, and short-term rentals. In Figures 7 and 8 we have a map illustrating the market value of areas across the City and showing the prices by various neighborhoods, and the short-term rental licenses in each of these areas as identified by the Reinvestment Fund.

Short-term licenses are present in all MVA categories, ranging from 0.4% of housing units in MVA Category I to 4.1% of housing units in MVA Category C. Categories B and C have the highest concentration of short-term rentals with 3.5% and 4.1% respectively. The market value of properties rose from 2015 to 2018 by 13.8% in MVA Category B and 23.9% in MVA Category C as illustrated in Table 4. Market values rose more in MVA Categories E through I than in B and

C. The changes in these market values in MVA Categories were not related to an abundance of short-term rentals occurring in these areas.

Table 4. Market Value of Properties in 2018 Compared to 2015

MVA Properties	Ratio of 2018 Market Value to 2015 Market Value	% Short Term Rental Licenses
A	96.0%	1.6%
B	113.8%	3.5%
C	123.9%	4.1%
D	122.0%	0.9%
E	152.8%	2.2%
F	146.5%	0.6%
G	163.6%	0.9%
H	170.6%	0.5%
I	155.6%	0.4%

Figure 7. 2018 Market Value by Neighborhood (Reinvestment Fund)

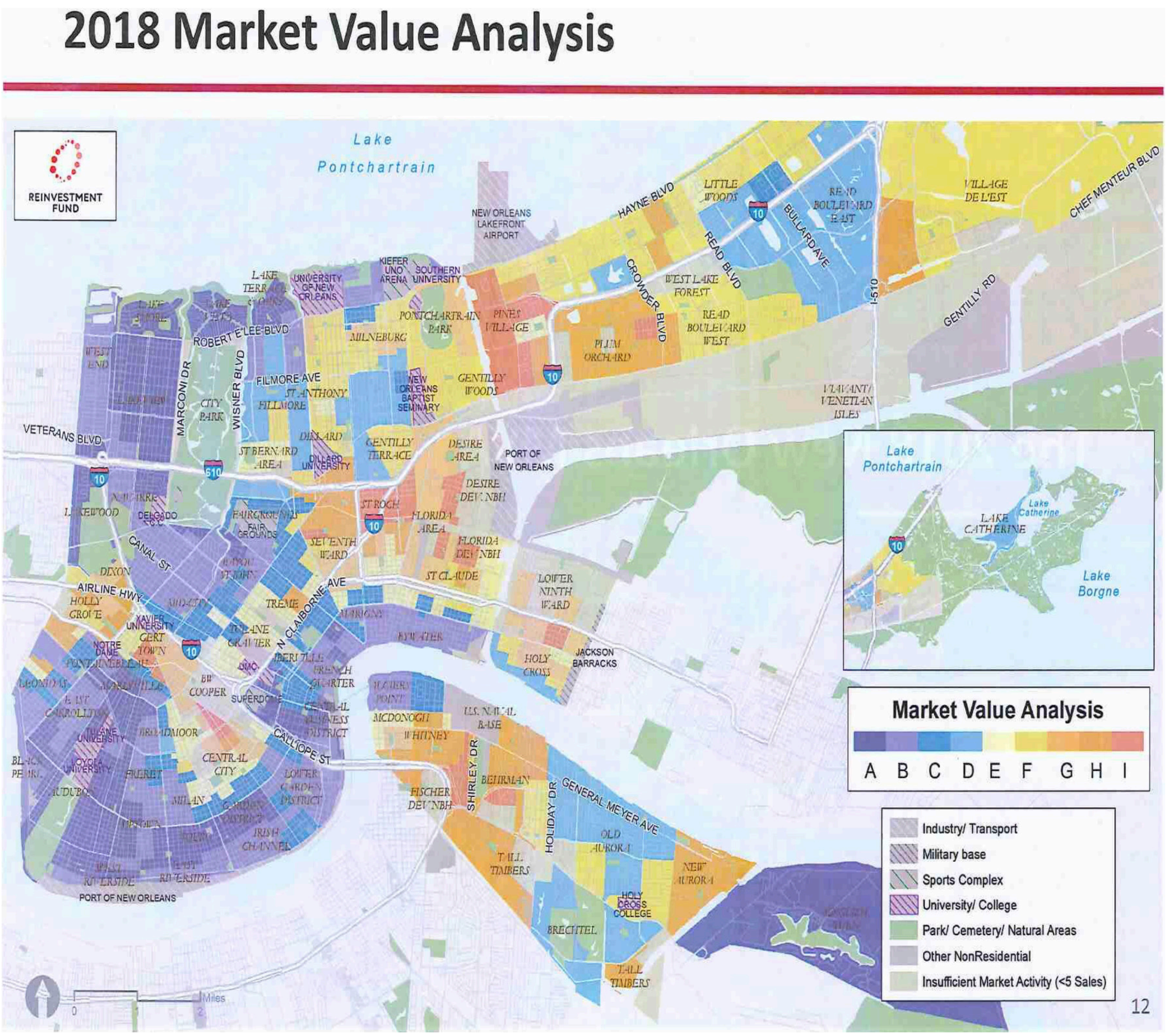


Figure 8. Market Data for Emerging Examination of Property in Louisiana

Average Values of Market Indicators by MVA Category

		Median Sales Price	Coefficient of Variance	Share of Home owners	Renovation/ Construction Permits	Vacant Unblighted Land	Vacant But Habitable Homes	Code Violation	Foreclosures	Subsidy Usage	Sales of Vacant Land	Short Term Rental Licenses
A	67	$510,584	0.50	65.2%	7.6%	1.6%	1.6%	0.8%	0.5%	1.4%	2.5%	1.6%
B	89	$348,335	0.47	43.4%	7.4%	2.0%	2.9%	2.4%	1.0%	6.0%	1.6%	3.5%
C	53	$215,278	0.59	31.8%	8.4%	4.5%	4.2%	5.3%	3.0%	15.2%	5.7%	4.1%
D	35	$191,765	0.46	81.0%	5.0%	3.7%	2.4%	3.7%	2.4%	33.1%	6.1%	0.9%
E	42	$131,708	0.69	26.8%	7.6%	10.6%	7.0%	11.3%	8.4%	30.0%	17.9%	2.2%
F	64	$124,348	0.51	52.7%	5.4%	5.7%	2.5%	5.1%	3.2%	45.3%	8.5%	0.6%
G	37	$75,830	0.73	42.3%	4.7%	18.6%	5.4%	11.8%	5.0%	40.4%	28.9%	0.9%
H	42	$68,844	0.67	45.5%	3.8%	8.0%	4.7%	6.2%	3.8%	47.1%	7.3%	0.5%
I	17	$26,626	0.97	46.5%	3.3%	20.4%	3.7%	9.9%	3.3%	50.2%	25.4%	0.4%

REINVESTMENT FUND

FINAL COMMENTS

Short-term rentals are a stage of economic development in the tourist industry. It represents a reaction to consumer preference, as indicated by visitors to a city such as New Orleans. Given the current level of Commercial STRs in New Orleans, net new spending of $350 million is generated for the New Orleans economy, leading to $513 million of economic activity, and 4,138 net new jobs with personal earnings of $122 million. All of this activity leads to $47 million in net new tax receipts for the state and local governments. In addition to the generation of net new visitors to the city, Commercial STRs encourage and facilitate net new construction spending within the city. And, for every $1 million of net new construction spending, over 14 net new jobs are created in the state and 4+ jobs in New Orleans.

From an economic standpoint, the rise of STRs can be seen as a new attraction that brings visitors to the city. Short-term rentals represent an alternative accommodation, one that may be more affordable, more compatible with the needs of visitors, and more in line with what the visitor wants to learn about a city such as New Orleans. Cities must be attentive to these consumer preferences, since they have alternative destinations to visit that will accommodate their preferences.

Commercial STRs represent “building from a city’s strength” as suggested by the Reinvestment Fund. Commercial STRs contribute to the tourism market in New Orleans, and encourage and facilitate construction improvements and enhanced commercial districts, all without any imposing any costs on residential communities.