The purpose of this newsletter is to update material presented in previous economic impact analysis reports produced by the Shimberg Center for Affordable Housing. As may be seen, the residential real estate and construction industries combine to represent a significant portion of Florida’s economic activity. Although the newsletter focuses only on the state-level information, the full report examines economic activity at the metropolitan statistical area (MSA) level and is available on the Internet at www.flhousingdata.shimberg.ufl.edu.

Introduction

Equity in real estate dominates the wealth of the typical Florida homeowner and the value of the Florida housing stock represents a sizable proportion of total wealth in the state. At year-end 2004, the state of Florida had nearly 9.04 million property parcels assessed at $1.45 trillion. Of these, approximately 4.11 million parcels represented single-family houses assessed at nearly $701 billion.

An indirect impact of the real estate is the tax revenue generated. The $1.45 trillion assessed value has a taxable value of slightly more than $1.02 trillion, which generates more than $22.5 billion in ad valorem tax revenues annually. These proceeds fund county government, school districts, special (water, sewer, etc.) districts, and municipal ventures. However, the primary focus of this report is on the direct impact of residential real estate activity, which fundamentally consists of construction- and real-estate-related transactions. Total residential construction output in 2004 was $36.9 billion. There were 822,500 real estate transactions in 2003 totaling nearly $127.06 billion in total sales, for a turnover rate of 9.23%.

The remainder of this report presents the impact of Florida’s real estate in several dimensions including investment.

1 Nationally, property taxes provide over two-thirds of the average locality’s revenues. See the National Realty Committee, “America’s Real Estate: A National Policy Agenda,” January 1995.
Value of Real Estate and Ad Valorem Taxes

Only real property is considered in this assessment of ad valorem taxes, i.e., personal property is disregarded as part of the tax base. Additional information is gathered from the 2004 Florida Property Valuations and Tax Data publication. The 15 general land use categories and the total number of real estate parcels in each category are: vacant residential (1,712,507), single-family detached housing (4,111,560), mobile homes (425,142), condominiums (1,390,608), multi-family housing [nine-or-less and ten-or-more units] (170,443), miscellaneous residential [cooperatives and retirement homes] (55,865), vacant commercial (81,197), improved commercial (188,898), vacant industrial (18,748), improved industrial (55,871), agricultural (228,501), institutional (55,156), government (201,790), and miscellaneous (319,458). The total just value of the parcels in the land use categories is $1.45 billion and the corresponding taxable value is $1.02 billion. These data clearly demonstrate that there exist large differences in the sizes of the land use categories within the MSAs and non-metropolitan regions as well as between them. It should be noted that the parcel counts are not unit counts because multiple living units located on a single parcel are counted as one parcel. The result is that parcel counts may severely undercount the number of condominium and multi-family units.

The state has an average millage rate of 18.52; the $1.02 trillion in taxable value generates approximately $22.5 billion in tax revenues. On average (for the state), school districts receive the greatest proportion (40.59% or $9.12 billion), followed by county government (35.9% or $8.06 billion), and municipalities (12.7% or $2.9 billion). One noticeable difference between the individual MSAs and non-metropolitan regions is how they use their property tax revenue to finance their schools, county government, and municipalities. Nearly 55% of the revenues in Ft. Walton Beach go to schools whereas the schools in the South Nonmetropolitan area receive 34%. The South Nonmetropolitan area directs nearly 53% to the county but in the Melbourne-Titusville-Palm Bay MSA the county receives just over 22%. The municipality’s share in the Ft. Lauderdale MSA is 21.5% but in the Jacksonville MSA the municipality receives about 2.5%.

Real Estate Activity

Construction – Building Permit activity, obtained from the U.S. Census Bureau and from the University of Florida’s Bureau of Economic and Business Research, is analyzed to derive the value of new construction for the state. Additions to the tax base and revenues generated are also determined. According to the building permit data, there were approximately 256,000 new units built in Florida in 2004. Almost 187,500 of these units were single-family units and the remaining 68,500 were multi-family units. The single-family units have a value of $29.5 billion and the multi-family units have a value of $7.4 billion for a total of $36.9 billion in new residential construction.

Transactions – Using data from the 2004 Florida Property Valuations and Tax Data publication, real estate sales, mortgage and related activities are examined. For the state of Florida in 2003, 822,500 real property parcel transactions took place with a total sales value of approximately $127 billion. In addition to the sales price, these transactions generate fees, doc stamps, title transfers, and brokerage commissions, which are estimated as a percentage of total sales. Although the exact sales cost percentage is not known, the revenues generated assuming four, five, and six percent are as follows:

<table>
<thead>
<tr>
<th>Sales Cost</th>
<th>Sales Revenue</th>
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<tbody>
<tr>
<td>4 percent:</td>
<td>$5.08 billion</td>
</tr>
<tr>
<td>5 percent:</td>
<td>$6.35 billion</td>
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<tr>
<td>6 percent:</td>
<td>$7.62 billion</td>
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We conservatively estimate the demand for real estate transaction related services to be $6.35 billion per year for real estate transactions.
In past reports, the Shimberg Center has also calculated the impact of nonresidential construction. Due to the difficulty in obtaining an accurate number for nonresidential construction and due to the fact that the vast majority of inquiries have been about residential construction, we have decided to discontinue examining the impact of nonresidential construction.

**Economic Multipliers and Actual Employment & Earnings**

IMPLAN, an economic impact modeling software program, is used to estimate the impacts generated by residential construction and real estate related transactions. When estimating the impacts, the residential construction numbers were divided into single-family construction and multi-family construction to more accurately model the impact, but only the combined impact is presented in this report. Also note that in order to better model the impacts of construction, Monroe County has been combined with the Miami-Dade MSA and therefore, has been removed from the Southern Non-metropolitan region.

Three types of impacts are estimated for nonresidential construction and real estate related transactions: direct effects, indirect effects, and induced effects. Direct effects are the changes in the industries to which a final demand change was made. Indirect effects are the changes made in inter-industry purchases as they respond to the new demands of the directly affected industries. Induced effects typically reflect changes in spending from households as income increases or decreases due to the changes in production.

**Total Impact on Output** – Output multipliers predict how much increased economic activity in other industries is caused by every additional dollar increase in one specified industry. Here the direct impacts are the non-residential construction and the real estate related transactions (estimated as 5% of sales in the MSA). IMPLAN models these direct effects and generates indirect and induced effects to come up with a total impact on the MSA economy. These effects are then summed to get an estimate of the total effect on the state. The $36.9 billion in new residential construction generates a total of $65.8 billion in economic activity, and the $6.4 billion in real estate related transactions generates a total of $8.9 billion in economic activity.

**Total Impact on Earnings** – The $36.9 billion in new residential construction generates a total of $22.3 billion in earnings. Of this $22.3 billion, the workers building the new residential construction directly earn $12.2 billion. There are also $5.8 billion of indirect earnings and $4.3 billion of induced earnings. An example of an indirect earner would be someone involved in mining the raw materials used to make the concrete that is be used in the new construction, and an example of an induced earner would be a waiter who is hired due to increase spending by the newly hired construction workers. The real estate related transactions generate a total of $1.7 billion of earnings.

**Total Multipliers for Employment** – The direct impact on employment is those workers hired to build the new construction or complete the real estate transactions. The indirect impact would be a new miner hired by a concrete manufacturer due to the increase in construction, and the previously mentioned waiter would be an example of an induced effect. Residential construction’s impact on employment is approximately 691,500 thousand jobs and another 77,300 jobs are impacted by the real estate related transactions. Therefore, over 760 thousand jobs in the state of Florida are related to real estate in some manner.

**Investment Returns from Real Estate** – The multiplier estimates above do not include investment (“unearned”) income from real estate. Because real estate is considered a factor of production that generates a return, such returns from real estate should also be regarded as an “impact”. All real estate parcels provide either an explicit rent (if they are rented or leased), or an implicit rent to the owner who would otherwise have to pay rent in lieu of ownership.

Obviously, different parcels (with different land uses and different locations) will generate different returns. RealtyRates.com surveys the return expectations of a representative sample of large institutional investors each quarter. Published in their quarterly Market Survey, this survey provides insight into the required yields (capitalization rates) used by large investors when making acquisitions. The mean required yield for 2004 investments in all property
types was 9.75 percent. According to the Florida Department of Revenue, the total just value of all real estate is approximately $1.45 trillion. Applying a 9.75 percent yield rate to the $1.45 trillion of market value suggests that real estate owners in Florida earn approximately $141.8 billion in investment income annually.

**Conclusion**

Figures here have been updated to the 2004 roll year data, the most recent year for which data are available from all the sources referenced. The different impacts of real estate are taxes, activity, and investment.

**Ad Valorem Taxes:** $22.5 billion annually goes to school districts (40.6%), county government (35.9%), and municipalities (12.7%).

**Real Estate Activity (Residential Construction and Transactions):** We estimate an economic impact from residential construction and real estate transactions of approximately $74.7 billion annually. Furthermore, residential real estate provides nearly 769 thousand jobs with annual earnings of nearly $24 billion.

**Real Estate Investment Income:** An explicit and implicit investment return to property owners of approximately $141.8 billion is generated annually. This does not include the employment and earnings that are generated from indirect real estate investments such as REITs.

The inquisitive reader is encouraged to visit the Florida Housing Data Clearinghouse website at [www.flhousingdata.shimberg.ufl.edu](http://www.flhousingdata.shimberg.ufl.edu) to view the complete 2005 update of The Impact of Residential Real Estate on the Florida Economy.