

ISSUES

SHIMBERG CENTER FOR AFFORDABLE HOUSING

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Impact of Construction and Real Estate on Florida's Economy

Update for 2004

Since publishing "The Impact of Real Estate on the Florida Economy" in June 2003, the Shimberg Center for Affordable Housing has received multiple requests to present the economic impact information for smaller geographic areas. As a result, the Center has published an "Update for 2004" using 2003 data at the metropolitan statistical area (MSA). The full report is available on the Center's web site at www.shimberg.ufl.edu.

This newsletter summarizes the state-level content of the 2004 update report but does not attempt to present information at the MSA geographic level. The newsletter is directed to a general audience that is interested in the direct, indirect, and induced impact of the construction and real estate industry on Florida's economy?

The purpose of this report is to characterize the direct, indirect, and induced economic impact of the real estate industry, broadly defined to include construction, on the economy in the state of Florida. Before proceeding it is important to recognize some basic numbers.

Direct Impact

The direct impact of the real estate and construction industry fundamentally consists of construction- and real-estate-related transactions.

Indirect Impact

The indirect impact of the construction and real estate industry is the tax revenue generated by the real property produced. Keep in mind that only real property is included in this discussion, personal property as part of the tax

base is disregarded completely.

The *2003 Florida Property Valuations and Tax Data* publication shows the total number of real estate parcels, their total assessed (also called “Just”) value, and total taxable value in each of fifteen general land use categories. The 2003 totals show 8.85 million property parcels with a total assessed value of \$1.26 trillion and a total taxable value of \$894 billion. This \$894 billion taxable value generates approximately \$20.36 billion in annual tax revenue with the state’s average millage rate of 18.96. These proceeds fund county government, school districts, special (water, sewer, etc.) districts, and municipal ventures.

Building permit activity is used to analyze the value of new construction in Florida. Using Census Bureau data and the *2003 Florida Property Valuations and Tax Data* publication, new construction in Florida in 2003 is valued at \$34.4 billion. The total value of residential construction based on building permits is \$28.0 billion leaving \$6.4 billion for non-residential new construction.

A total of 722,621 real property parcel transactions took place in Florida in 2002 with a total sales value of \$101.7 billion. These transactions also generate fees for doc stamps, title transfers, and brokerage commissions. These fees range from 4 to 6 percent of the sales price. Using the middle value of 5 percent, a conservative estimate of the total demand for real estate transaction services comes to \$5.08 billion per year.

Regional Input-Output Modeling System Multipliers

IMPLAN, an economic impact modeling software program, is used to estimate the impacts generated by non-residential construction, 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.

Three types of impacts are estimated for non-residential construction, residential 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.

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, 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: \$6.4 billion of non-residential construction generates a total of \$11.96 billion of economic activity, the \$28 billion in new residential construction generates a total of \$48.4 billion in economic activity, and the \$5.08 billion in real estate related transactions generates a total of \$7.12 billion in economic activity.

Impact on Earnings

The \$6.4 billion of non-residential construction generates over \$5.3 billion in earnings. The \$28 billion in new residential construction generates a total of \$17.5 billion in earnings. Of this \$17.5 billion, the workers building the new residential construction directly earn \$9.2 billion. There are also \$4.5 billion of indirect earnings and \$3.8 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 \$1.35 billion of earnings.

Impact on Employment

Here the direct impacts are those workers hired to build the new construction or to 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. The total impact on employment is 150 thousand jobs due to non-residential construction, 509.5 thousand jobs due to residential construction, and 62,000 jobs due to real estate related transactions. Therefore, over 720 thousand jobs in the state of Florida are related to real estate in some manner.

■ Real estate & Construction
■ Other industries

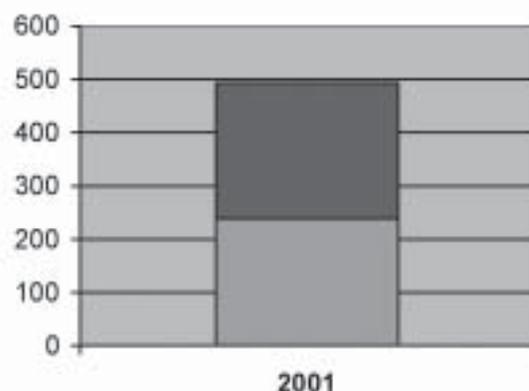
Investment Returns

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 2003 investments in all property types was 9.94 percent.

According to the Florida Department of Revenue, the total just value of all real estate is approximately \$1.26 trillion. Applying a 9.94 percent yield rate to the \$1.26 trillion of market value suggests that real estate owners in Florida earn approximately \$125.6 billion in investment income annually.

Florida 2001 Gross State Product



Summary

Ad valorem taxes generated by Florida's construction and real estate industry exceed \$20.36 billion annually and are used primarily for school districts, county government, and municipalities. The economic impact from residential construction is approximately \$48.4 billion, and the economic impact from non-residential construction is approximately \$11.96 billion. The impact from real-estate-related transactions is \$7.1 billion, generating a total impact of \$67.46 billion. In addition 722 thousand jobs with annual earnings of nearly \$24.2 billion are associated with these activities. Finally, there is an investment return to property owners of approximately \$125.6 billion annually.

Total estimated impact on the Florida economy of the real estate and construction industries is \$237.6 billion annually.

It is clear from these numbers that the construction and real estate industries represent a significant portion of the Florida economy. According to the Commerce Department's Bureau of Economic Analysis the gross state product of all industries in Florida in 2001 (the most recent report available) was \$491.488 billion. The total annual economic impact of the construction and real estate industries as discussed comes to \$233.9 billion or 48.3 percent of the gross state product.

Affordable Housing ISSUES is prepared bi-monthly by the Shimberg Center for Affordable Housing for the purpose of discussing contemporary issues facing affordable housing providers. Reproduction of this newsletter is both permitted and encouraged. Comments or questions regarding the content are welcome and should be addressed to Robert C. Stroh, Director.

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