

**THE IMPACT OF REAL ESTATE ON THE
FLORIDA ECONOMY**

--UPDATE FOR 2002--

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October 2002

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Summary of Economic Impacts Using 2001 Data

Ad Valorem Taxes:

In excess of \$12.4 billion annually in property taxes goes to school districts, county government, and municipalities.

Real Estate Activity (Construction and Transactions):

The economic impact from construction and real estate transactions to be approximately of \$65 billion annually.

Real estate provides more than 1 million jobs with annual earnings of nearly \$20.3 billion.

Real Estate Investment Income:

An investment return to property owners of approximately \$106 billion annually.

Total Estimated Impact on Florida Economy:

In excess of \$ 203.7 billion annually

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The purpose of this research is to update the previous economic impact analysis report (by Ling, Smersh, and Smith) based on 1995 data to an analysis based on 2001 data. These reports characterize the importance of real estate, broadly defined, to the economy in the state of Florida. 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 2001, the state of Florida had over 8.5 million property parcels assessed at \$992 billion. Of these, approximately 3.8 million parcels represented single-family detached houses assessed at nearly \$450 billion.

An indirect impact of the real estate is the tax revenue generated. The \$992 billion assessed value has a taxable value of approximately \$716 billion, which generate more than \$12.4 billion in ad valorem tax revenues annually. These proceeds fund county government, school districts, special (water, sewer, etc.) districts, and municipal ventures.¹ However, the primary focus of this report is on the direct impact of real estate activity, which fundamentally consists of construction and real estate related transactions. Total construction output in 2001 was \$27.4 billion. This new construction translated into an increase of \$24.8 billion in assessed value

There were 653 thousand real estate transactions in 2001 totaling nearly \$98.4 billion in total sales, a turnover rate of approximately 7.6%. The remainder of this report documents the impact of 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.

Section 1: The value of Real Estate and Ad Valorem Taxes

This analysis includes real property only, i.e., personal property as part of the tax base is disregarded. Additional information is gathered from the *2001 Florida Property Valuations and Tax* publication. Table 1 shows the total number of real estate parcels, total assessed (just) value, and total taxable value by general land use category for the entire state. The 15 general land use categories are vacant residential, single family detached housing, mobile homes, condominiums, multi-family housing (nine or less and ten or more units), miscellaneous residential (cooperatives and retirement homes), vacant commercial, vacant industrial, improved industrial, agricultural, institutional, government, and miscellaneous.

Table 1: Real Property in Florida for 2001

General Land Use	2001 Total Number of Parcels	2001 Just Value of Real Property	2001 Taxable Value Of Real Property
Vacant Residential	1,766,087	\$29,184,755,607	\$28,630,691,722
Single Family Residential	3,795,468	450,177,257,284	332,779,886,935
Mobile Homes	403,504	14,992,497,529	8,594,240,314
Condominium	1,279,295	129,249,420,712	108,688,180,302
Multi Family<10	155,532	16,998,223,838	15,067,847,895
Multi Family> or = 10	13,685	29,810,196,858	29,236,634,211
Misc. Residential	64,967	4,986,769,128	4,004,985,959
Vacant Commercial	81,639	9,890,194,438	9,685,304,885
Improved Commercial	181,953	123,455,865,256	121,212,237,933
Vacant Industrial	19,367	2,753,508,721	2,690,385,246
Improved Industrial	51,788	28,821,753,806	28,413,390,711
Agriculture	226,460	40,517,823,217	10,112,610,925
Institutional	50,390	24,442,170,471	6,108,940,099
Government	183,418	72,425,396,702	705,268,388
Misc.	277,594	14,096,977,937	10,272,875,212
Total Real Property	8,551,147	\$991,802,811,504	\$716,203,480,737

With an average millage rate of 17.3, the \$716 billion in taxable value generates approximately \$12.4 billion in tax revenues. On average (for the state), school districts

receive the greatest proportion (42.3% or \$5.2 billion), followed by county government (35.2% or \$4.4 billion), and municipalities (12.2% or \$1.5 billion).

Section 2: Real Estate Activity

2.1 Construction

Building Permit activity is analyzed to derive the value of new construction for the state. Additions to the tax base and revenues generated are also determined. The sources of these data are the U.S. Census Bureau and *2001 Florida Property Valuations and Tax* publication. New construction in the state of Florida is valued at approximately \$27.4 billion dollars. The building permit 2001 total for the state for new residential construction is \$19.5 billion, implying \$7.9 billion is non-residential new construction. For new residential, 118,702 single-family units were constructed and 48,333 multi-family units were constructed. For the state, single-family represents about 71 percent of the total units built.

2.2 Transactions

Next, real estate sales, mortgage and related activities are examined. The sources of these data are the *2001 Florida Property Valuations and Tax* publication. For the state of Florida in 2001, 653,355 real property parcel transactions took place with a total sales value of approximately \$98.4 billion. A portion of this total sales value goes to fees, doc stamps, title transfer, and brokerage commissions. Although the exact sales cost percentage is not known, the revenues generated assuming four, five, and six percent are as follows:

Sales Cost	Sales Revenue
4 percent:	\$3.9 billion
5 percent:	\$4.9 billion
6 percent:	\$5.9 billion

We conservatively estimate the demand for real estate transaction related services to be \$4.9 billion per year for real estate transactions.

Section 3: Economic Multipliers and Actual Employment & Earnings

The Regional Input-Output Modeling System (RIMS II), developed by the U.S. Department of Commerce Bureau of Economic Analysis (BEA) is used to analyze economic impacts. The RIMS II system allows economic impacts to be estimated for any region (Florida) and for any industry with a Standard Industry Classification (SIC) in the national input-output tables.

For each specific industry division, there is a set of three “total” multipliers: output, earnings, and employment. These multipliers are applied to the demand estimates (developed in section 2) to produce estimates of the total impact (over all related industries within the state) of real estate on the state’s economy. The total impact of employment and earnings refers to all direct and indirect jobs and the income they create. An example of direct employment is a real estate agent, while an example of an indirect employment is the advertising job at the local newspaper that is created by the listing of the properties for sale. We compare our multiplier-predicted employment and earnings to actual (direct) employment and earnings as a verification of the final demand estimates.

The remainder of this section summarizes demand estimates for different industrial divisions, predicts the total multiplier effect for output, earnings and employment, and documents actual earnings/employment to compare with our predicted impacts of real estate activity.

3.1 Total Multipliers for Output

Output multipliers predict how much increased economic activity in other industries is caused by every additional dollar increase in one specified industry. The output multipliers allow us to estimate the amount of economic activity that is generated from an increase in the value of real estate activity. The effect on economic output is demonstrated in Table 3-1 below. For every one dollar that is spent on new construction, a total of \$2.12 of economic activity is generated. The \$2.12 is composed of \$1.00 of direct (on the job) materials and labor, plus an additional \$1.12 of increased output in other related industries. The multipliers are applied to our final estimates of annual demand (from section 2): \$27.4 billion for new construction and \$4 billion for real estate transactions. Output multipliers predict a total impact of \$58.1 billion from new construction (of which \$41.4 billion comes from new residential construction) and \$6.9 billion from real estate transactions. This represents an annual (2001) total for the state of approximately \$65 billion.

Table 3-1 State of Florida: Total Multipliers for Output

Industry	Demand Estimate	Multiplier	Output Impact
New Construction	\$27,400,000,000	2.1207	\$58,107,180,000
Real Estate	4,900,000,000	1.3990	6,855,100,000
		Total:	\$64,962,280,000

3.2 Total Multipliers for Earnings

Earnings multipliers for a given industry in a region show the earnings that a given industry pays, both directly and indirectly, to households employed in regional industries to deliver an additional dollar of output. For example, Table 3-2 below shows that the earnings multiplier for new construction is 0.7134. This means that \$0.71 will be paid in wages to people directly and indirectly involved in the creation of each additional dollar of output. A portion of the earnings would be considered direct if the earner was at the actual job site placing concrete. An indirect earner would be someone involved in mining the raw materials used to make the concrete that is be used on the job.

Earnings multipliers predict \$19.5 billion from new construction (of which \$13.9 billion comes from new residential construction) and \$790 million from real estate transactions. This represents an annual (2001) total for the state of over \$20.3 billion.

Table 3-2: State of Florida: Total Multipliers for Earnings

Industry	Demand Estimate	Multiplier	Earnings Impact
New Construction	\$27,400,000,000	0.7134	\$19,547,160,000
Real Estate	4,900,000,000	0.1612	789,880,000
		Total:	\$ 20,337,040,000

3.3 Total Multipliers for Employment

Employment multipliers work in much the same way as earnings multipliers, except that they predict the number of jobs that will be created and they are expressed in millions of dollars of output. The employment multipliers predict the actual number of direct and indirect jobs created. For example, as shown in Table 3-3 below, each \$1 million of new construction is estimated to create 37.6 jobs. Employment multipliers therefore predict 1 million jobs from new construction (new residential construction accounts for 733 thousand of these jobs) and 66 thousand jobs from real estate transactions. This represents an annual (2001) total for the state of over 1 million jobs.

Table 3-3: State of Florida: Total Multipliers for Employment

Industry	Demand Estimate	Multiplier*	Employment Impact
New Construction	\$27,400,000,000	37.6	1,030,240
Real Estate	4,900,000,000	13.5	66,150
		Total:	1,096,390

Section 4: 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 which 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 2001 investments in all property types was 10.73 percent.

According to the Florida Department of Revenue, the total just value of all real estate is approximately \$991.9 billion. Applying a 10.73 percent yield rate to the \$991.9 billion of market value suggests that real estate owners in Florida earn approximately \$106 billion in investment income annually.

Section 5: Conclusion

Figures here have been updated to 2001, the most recent year for which data is available from all the sources employed here. The different impacts of real estate are taxes, activity, and investment.

Ad Valorem Taxes: In excess of **\$12.4 billion** annually goes to school districts (42.3%), county government (35.2%), and municipalities (12.2%).

Real Estate Activity (Construction and Transactions): We estimate an economic impact from construction and real estate transactions to approximately **\$65 billion** annually. Furthermore, real estate provides more than 1 million jobs with annual earnings of nearly \$20.3 billion.

Real Estate Investment Income: An investment return to property owners of approximately **\$106 billion** annually. This does not include the employment and earnings that are generated from indirect real estate investments such as REITs.