

ISSUES

SHIMBERG CENTER FOR AFFORDABLE HOUSING

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Impact of Construction and Real Estate on Florida's Economy

At various times the Shimberg Center for Affordable Housing receives inquiries about the impact of the construction and real estate industry on Florida's economy. As a result, the Center has published a summary titled "The Impact of Real Estate on the Florida Economy." The report has been updated to reflect 2002 data. The full report is available on the Center's web site at www.shimberg.ufl.edu by clicking on "Florida Housing Data" and then on "Reports."

This newsletter summarizes the content of the 2003 report and is directed to a general audience that asks the same question - What is the impact of the construction and real estate industry on Florida's economy?

The purpose of this report is to characterize the direct and indirect 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.

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 2002 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 2002 totals show 8.6 million property parcels with a total assessed value of \$1.1 trillion and a total taxable value of \$794 billion. Using an average millage rate of 17.12, this \$794 billion taxable value generates approximately \$13.6 billion in tax revenue.

Direct Impact

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

Building permit activity is used to analyze the value of new construction in Florida. Using Census Bureau data and the *2002 Florida Property Valuations and Tax Data* publication, new construction in Florida in 2002 is valued at \$33.5 billion. The total value of residential construction based on building permits is \$22.5 billion leaving \$11.0 billion for non-residential new construction. A total of 128,716 single-family and 56,712 multi-family units were constructed during 2002.

A total of 653,355 real property parcel transactions took place in Florida in 2001 with a total sales value of \$98.4 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 \$4.9 billion per year.

Regional Input-Output Modeling System Multipliers

The Bureau of Economic Analysis of the U.S. Department of Commerce has developed a Regional Input-Output Modeling System called RIMS II that can be used to estimate the economic impact of any industry with a Standard Industrial Classification (SIC). For each industry there are a set of three total multipliers: output, earnings, and employment. The output multiplier is used to predict the increase in

economic activity in other industries resulting from a dollar increase in a specific industry. The earnings multiplier is used to compute the earnings that a given industry pays, both directly and indirectly, to households in industries in the region in order to produce a dollar of output. Finally, the employment multiplier works in much the same way as the output and earnings multipliers. That is, the employment multiplier is used to predict the number of both direct and indirect jobs that will be created by an industry for every million dollars of output value.

Output Multipliers

The RIMS II total output multiplier for the new construction industry in Florida is 2.1207 and that for the real estate industry is 1.3990. Using the new construction value of \$33.5 billion and the real estate transaction total of \$4.9 billion and applying these multipliers yields a total 2002 economic impact on the state's economy of approximately \$77.9 billion.

Earnings Multipliers

The total earnings multiplier for the new construction industry in Florida is 0.7134 and for the multiplier for the real estate industry is 0.1612. Applying these multipliers to the \$33.5 billion for new construction and the \$4.9 billion for the real estate transaction total produces approximately \$24.7 billion in direct and indirect earnings paid in 2002.

Employment Multipliers

The new construction industry's total employment multiplier is 37.6 and that for the real estate industry is 13.5. Once again using the

\$33.5 billion in new construction and the \$4.9 billion in real estate transactions times the multipliers yields approximately 1.26 million jobs are created.

Using building permit data for 2002, the total construction output of \$33.5 billion can be divided into new residential construction estimated at \$22.5 billion thus leaving \$11.0 billion for non-residential new construction. That means that new residential construction alone accounted for 846,000 of the 1.26 million jobs created.

Investment Returns

The RIMS II multipliers do not account for unearned income from real estate. That means that income from a rented parcel is not considered. Also not considered is the implicit rent to the owner who would otherwise have to pay rent in lieu of ownership. Although different parcels in different locations will generate different returns, a company called RealtyRates.com surveys the return expectations of large institutional investors each quar-

ter. They reported that the mean required yield for 2002 in all property types was 10.57 percent.

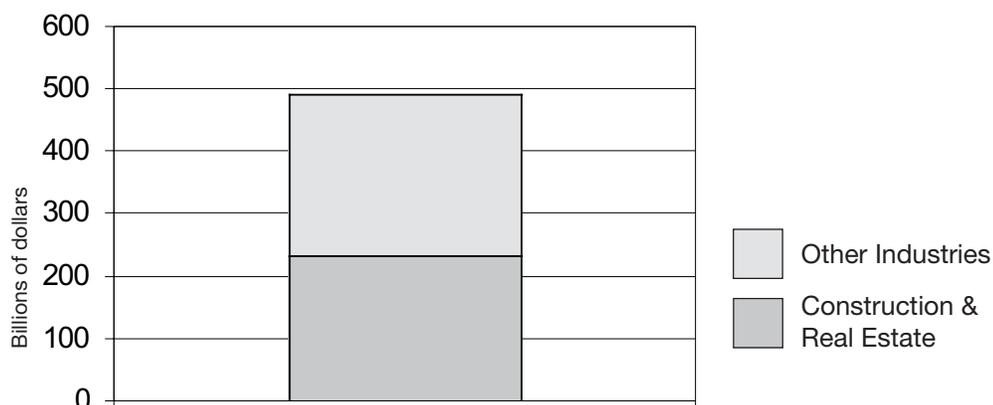
Using the \$1.1 trillion assessed value of the 8.6 property parcels in Florida and applying the 10.57 percent yield rate indicates that real estate owners in Florida earn approximately \$117.7 billion in investment income in 2002.

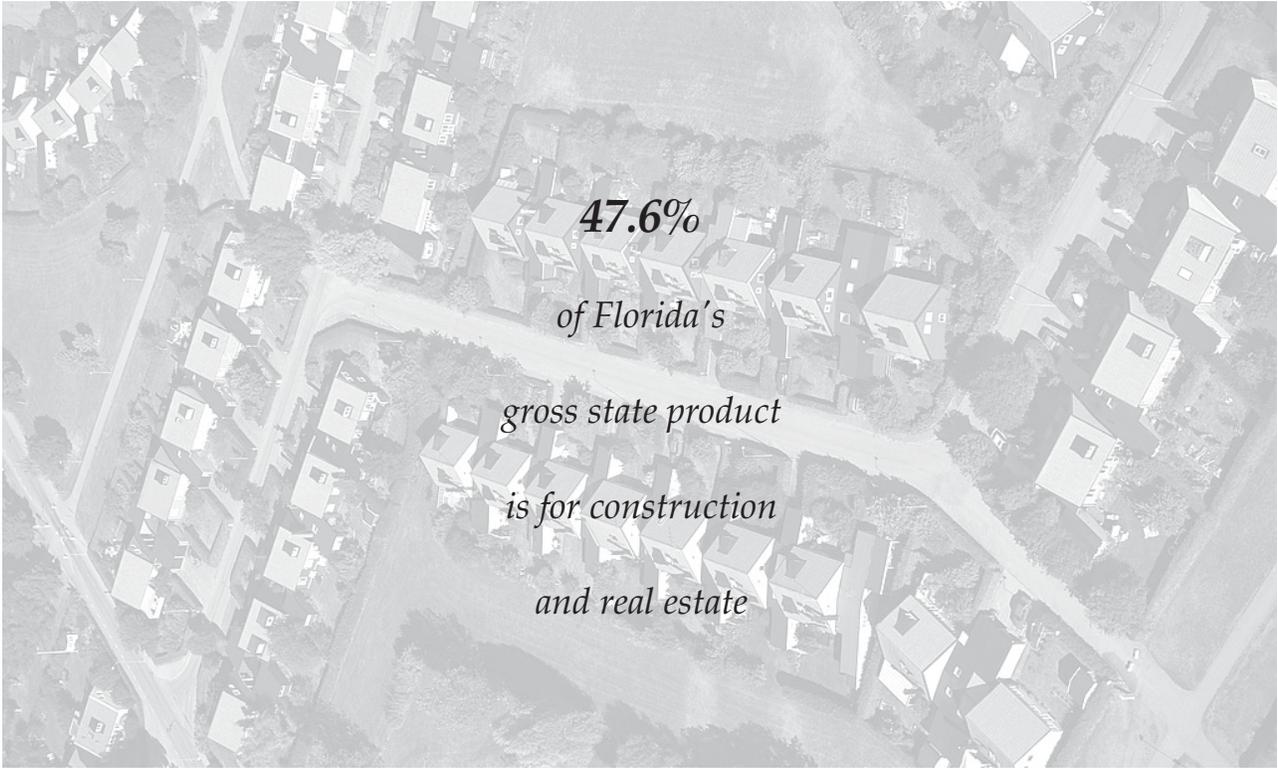
Conclusion

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 Florida in 2001 (the most recent report available) was \$491.488 billion. The total economic impact of the construction and real estate industries as discussed comes to \$233.9 billion or 47.6 percent of the gross state product.

For addition information about the content of this newsletter, please contact Douglas White at the Shimberg Center for Affordable Housing.

Florida's 2001 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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