

The Economic Impact of Residential Property Sales in Illinois: 2010 STATEWIDE RESULTS

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Background

- ▶ In 2007, RCF performed a study of the economic impacts of real estate transactions in Illinois to show how spending by buyers and sellers of residential properties in Illinois impacts the overall Illinois economy.
- ▶ In 2010, RCF conducted an update of the previous study. Results of the 2010 study are presented in this report, as well as a comparison to the 2007 study.

Introduction

- ▶ This report is Part 1 of the 3-part study on the economic impact of residential property sales in Illinois conducted in 2010.
- ▶ Part 2 will be: Impacts to the 11 Illinois metropolitan statistical areas.
- ▶ Part 3 will be: A detailed look at DuPage County.

Introduction (cont'd)

- ▶ In Part 1 of the study, which is reported here, Step 1 estimates the expenses incurred by buyers and sellers in conjunction with the purchase and sale of average priced homes in Illinois.
- ▶ Step 2 estimates the ripple, or indirect, effects of the initial expenses throughout the state.

Step 1 – Estimate Direct Expenditures

- ▶ Expenditures associated with home transactions obtained from:
 - RCF survey of 7,224 recent home buyers,
 - Survey of title companies, research reports, and other data sources.
- ▶ Direct expenditures include buyers' and sellers' expenses for each home sold.

Expenditures Accompanying A Typical Residential Sale

Overview

- ▶ Sellers spend money preparing their homes for sale.
- ▶ Buyers spend money getting settled after they purchase a home.
- ▶ During the transaction, both buyers and sellers may hire other professional service providers and pay taxes to government agencies.

Expenditures Accompanying A Typical Residential Sale

- ▶ Expenditures for the study are grouped into the following industry areas:
 - Construction
 - Retail Trade
 - Transportation
 - Finance and Insurance
 - Real Estate
 - Professional Services
 - Public Administration

Expenditures Accompanying a Residential Property Sale

Construction

Paid to painters, electricians, plumbers, repair contractors and other service providers to fix-up or make repairs prior to sale of a home, or after moving into a home.

\$4,003 per home sale

Source: RCF survey of recent home buyers and sellers.

Expenditures Accompanying a Residential Property Sale

Retail Trade

Paid to retail establishments such as furniture, appliance, house wares and hardware stores associated with fix-up and repairs prior to sale of a home, or after moving into a home.

\$7,093 per home sale

Source: RCF survey of recent home buyers and sellers.

Expenditures Accompanying a Residential Property Sale

Transportation

Includes fees paid to professional moving companies, as well as costs incurred by people who move themselves or rent a moving truck.

\$893 per home sale

Source: RCF survey of recent home buyers and sellers.

Expenditures Accompanying a Residential Property Sale

Finance and Insurance

Includes lender fees, homeowner's insurance, and title insurance.

\$2,315 per home sale

Source: RCF survey of title insurance companies and lenders, Bankrate.com average closing costs (Aug. 2010).

Expenditures Accompanying a Residential Property Sale

Real Estate

Includes commissions paid to real estate brokers, based on average home sales price data and reported commission rates.

\$10,773 per home sale

Source: Illinois Association of REALTORS.

Expenditures Accompanying a Residential Property Sale

Professional Services

Includes real estate attorney fees, property inspectors, title company closing costs, and other professional services.

\$2,374 per home sale

Source: RCF survey of recent home buyers and sellers , RCF survey of title insurance companies and lenders, Bankrate.com average closing costs (Aug. 2010).

Expenditures Accompanying a Residential Property Sale

Public Administration

Includes real estate transfer taxes paid by buyers and sellers to state, county and municipal authorities.

\$1,130 per home sale

Source: IAR Quarterly Housing Survey by County (2009 Q4 to 2010 Q3), Illinois Transfer Tax Ordinances by Taxing Body (as maintained by IAR).

Total Direct Expenditures

- ▶ To obtain total direct expenditures statewide, multiply expenditures per sale by number of sales.
- ▶ The following slide shows the results of multiplying the industry average expenditures per sale by 111,319, which is the 2010 total number of residential sales in the state.
- ▶ The sum over all industries gives Illinois total direct expenditures of \$3.2 billion.

Calculation of Illinois Total Direct Expenditures, 2010

Industry	Average per Sale*	Illinois State Total (Millions)**
	2010	2010
Construction	\$4,003	\$446
Retail Trade	\$7,093	\$790
Transportation	\$893	\$99
Finance and Insurance	\$2,315	\$258
Real Estate	\$10,773	\$1,199
Professional Services	\$2,374	\$264
Public Administration	\$1,130	\$126
Totals	\$28,581	\$3,182

*From earlier slides

**Previous column times number of Illinois sales; number is 111,319 for 2010 (IAR)

Step 2 – Calculate Statewide Effects

Take account of the indirect effects of the direct expenditures from Step 1 using an input-output model of the Illinois economy.

Input-Output Modeling

- ▶ Input-output analysis models purchases and sales between industries.
- ▶ An input-output model describes how money spent in one industry goes to other industries which in turn is spent in various other industries, and so forth.
- ▶ The end result is a multiplier effect on the economy, which is calculated by the model.
- ▶ The input-output model used for this study was developed by the Regional Economics Applications Laboratory (REAL) at the University of Illinois at Urbana-Champaign.

Statewide Results

- ▶ As shown in the next slide, adding the indirect effect of \$4.7 billion as calculated from the input-output model to the direct effect of \$3.2 billion from Step 1 gives a total effect on the state's output of \$7.9 billion.

Summary of Input-Output Model Results

Direct and Indirect Statewide Output Effects

Industry	Direct	Indirect	Total
All Industries	\$3,182 Million	\$4,741 Million	\$7,924 Million

Statewide Results (cont'd)

- ▶ The next slide shows effects by industry.
 - ▶ The largest total effect is for the sum of all other industries (resources, durables, non-durables and services) at \$3.5 billion.
 - ▶ The second largest total effect is for finance, insurance, real estate and professional services at \$1.8 billion.
 - ▶ The third largest total effect is for retail trade at \$1.3 billion.

Summary of Input-Output Model Results

Direct and Indirect Statewide Output Effects by Industry

Industry	Direct (Millions)	Indirect (Millions)	Total (Millions)
Construction	\$446	\$343	\$789
Retail Trade	\$790	\$529	\$1,319
Transportation	\$99	\$202	\$301
Finance, Insurance, Real Estate and Professional Services	\$1,721	\$103	\$1,824
Public Administration	\$126	\$60	\$186
Subtotal	\$3,182	\$1,238	\$4,419
All Other Industries – Resources, Durables & Non-Durables, Services	\$0	\$3,503	\$3,503
Total	\$3,182	\$4,741	\$7,922

Statewide Results (cont'd)

- ▶ The next slide compares the effect on total state production with results for other Illinois statistics.
 - ▶ Gross State Product (GSP)
 - ▶ Wage and Salary Income
 - ▶ Employment

Effects on Illinois Production, Employment and Income

Year	2010
Output*	\$7.92 billion
Gross State Product**	\$3.65 billion
Wage and Salary Income	\$2.32 billion
Employment	85,677 jobs

*Output is the sales of all industries to one another and to final consumers.

**Gross state product is net income after subtracting sales between industries from total output.

First-Time Buyers vs. Non-First-Time Buyers

- ▶ According to *The 2010 Illinois Profile of Home Buyers and Sellers*, first-time home buyers accounted for 51% of homes purchased in 2010 (Illinois Association of Realtors).
- ▶ Using this percentage, the statewide impact on Gross State Product (GSP) attributable to activity by first-time buyers is \$1.86 billion.
- ▶ GSP impact of non-first-time buyers is \$1.79 billion.

Conclusions

Conclusions

- ▶ This study shows how the expenditures of buyers and sellers in connection with a residential property transaction generate a significant amount of additional economic activity.
- ▶ The expenditures accompanying a transaction include preparing a home for sale, getting settled after the purchase, and paying for expenses to execute the sale.

Conclusions (cont'd)

- ▶ The expenditures accompanying a transaction occur in construction, retail trade, transportation, finance and insurance, real estate, other professional services, and public administration.
- ▶ For 2010, these expenditures are estimated to be \$28,581 for a typical transaction, giving total direct expenditures in Illinois of \$3.2 billion.

Conclusions (cont'd)

- ▶ The effect of the direct expenditures on total state output was estimated using input-output modeling. The effect on total state output is \$7.9 billion.
- ▶ Illinois Gross State Product (GSP) is raised by \$3.65 billion annually by real estate transactions.
- ▶ The residential real estate transactions support 85,677 jobs and generate \$2.3 billion in wage and salary income.
- ▶ First-time home buyers bought 51% of homes purchased in Illinois in 2010, generating \$1.86 billion of the impact on Gross State Product (GSP).

Comparison of 2007 and 2010 Results

Comparison of Homes Sales and Average Home Price

- ▶ Overall number of transactions and the average statewide home price were down from 2007 to 2010.

	2007	2010	% Change
Number of Home Sales	167,860	111,319	-34%
Average Home Price	\$269,403	\$208,293	-19%

All numbers in 2010 USD

Comparison of 2007 and 2010 Impacts on Statewide Output

- ▶ The decrease in number of transactions and average home price led to a decrease in impacts on total statewide output of 37%.

Industry	Total Impacts on Statewide Output		
	2007 (Millions)	2010 (Millions)	% Change
Direct Industries (Construction, Retail, Transportation, FIRE, Professional Services, Public Administration)	\$6,796	\$4,419	-35%
All other industries	\$5,720	\$3,503	-39%
Total	\$12,516	\$7,922	-37%

All numbers in 2010 USD

Comparison of 2007 and 2010 Results Summary

	2007	2010
Output*	\$12.52 billion	\$7.92 billion
Gross State Product**	\$5.79 billion	\$3.65 billion
Wage and Salary Income	\$3.68 billion	\$2.32 billion
Employment	135,995 jobs	85,677 jobs

*Output is the sales of all industries to one another and to final consumers.

**Gross state product is net income after subtracting sales between industries from total output.