

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

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March 31, 2011**

Outline

- ▶ Introduction
- ▶ Step 1 - Estimate Direct Expenditures
- ▶ Step 2 - Calculate Statewide Impacts
- ▶ Conclusions
- ▶ Comparison of 2007 and 2010 Results

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 resulting in responses from 415 recent home buyers and sellers,
 - 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, Insurance, Real Estate and 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, Insurance, Real Estate and Professional Services

Includes lender fees, homeowner's insurance, title insurance, commissions paid to real estate brokers, real estate attorney fees, property inspectors, and title company closing costs.

\$15,462 per home sale

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

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, Insurance, Real Estate and Professional Services	\$15,462	\$1,721
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

2010	Direct	Indirect	Total
All Industries	\$3.2 Billion	\$4.7 Billion	\$7.9 Billion

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 2010

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 2010

Output*	\$7.9 billion
Gross State Product**	\$3.6 billion
Wage and Salary Income	\$2.3 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 53% 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 \$1.9 billion.
- ▶ GSP impact of non-first-time buyers is \$1.7 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) was raised by \$3.6 billion in 2010.
- ▶ The residential real estate transactions support 85,677 jobs and generate \$2.3 billion in wage and salary income.
- ▶ First-time home buyers bought 53% of homes purchased in Illinois in 2010, generating \$1.9 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, Finance, Insurance, Real Estate, 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.