

The Economic Impact of MLS[®] Home Sales



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Preface

This is the second study The Canadian Real Estate Association has initiated to show the economic impact of the buying and selling of existing homes. Both studies have been prepared by Clayton Research Associates of Toronto as initiatives of CREA's Federal Affairs Committee. The latest report from Clayton Research Associates is enclosed, covering transactions between January 2000 and November 2002. A comparison with the first study, published in 1994, shows the following:

Consumer Expenditures per transaction:

	<u>1991-1992</u>	<u>2000-2002</u>	<u>Change</u>
Moving costs	\$ 385	\$ 490	27%
General household purchases	\$ 880	\$1,315	49%
Furniture/Appliances	\$1,830	\$3,385	85%
Renovations	\$2,575	\$3,550	38%
Professional services	<u>\$9,765</u>	<u>\$9,485</u>	- 3%
Total	\$16,200	\$19,760	22%

The current report shows the overall economic consumer spending spin-offs from MLS® transactions at \$7.5 billion per year; the buying and selling of existing homes also generates 101,600 jobs per year. These charts show how the overall economic impact has changed in ten years:

Economic Spin-off Benefits From Average Annual MLS® Residential Transactions	For the Years Between:¹	
	1990 - 1992*	2000 - 2002*
Total spin-off consumer spending	\$4.8 billion	\$7.5 billion

Average annual direct & indirect jobs created:	For the Years Between:¹	
	1990 - 1992*	2000 - 2002*
Direct	35,700	66,900
Indirect	21,500	34,700
Total	57,200	101,600

Average annual jobs creation by industry²:

Primary industries	600	800
Manufacturing	7,300	9,000
Construction	6,800	10,900
Transportation & storage	1,900	4,900
Communication	1,300	2,300
Other Utility	400	300
Wholesale trade	2,600	3,600
Retail trade	5,700	12,900
Finance, insurance & real estate	22,100	34,400
Community, personal & business services	8,400	22,600

¹ Expenditures are based on an annual average of 295,000 MLS® home sales for the period from 1990 to 1993, and on an annual average of 381,900 MLS® home sales for the period from 2000 to 2002.

² May not add to total due to rounding.

Economic Impacts of MLS® Home Sales and Purchases

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EXECUTIVE SUMMARY

Resale housing transactions in Canada generate significant economic activity. The purchase and sale of homes via the Multiple Listing Service® (MLS®)* generates fees to professionals such as lawyers, appraisers, real estate agents, surveyors, etc. as well as taxes and fees to government. And when Canadians move house, they typically purchase new appliances or furnishing, as well as undertaking renovations that tailor the new home to specific household requirements.

During the period between January 2000 and November 2002, for example, it is estimated that a total of **\$19,800** was generated by the average housing transaction in Canada.

Considering the average of 381,900 home sales processed annually through MLS® during that period, spending attributable to moving house totalled over **\$7.5 billion per year** – a significant contribution to the total Canadian economy.

Direct and indirect employment resulting from housing resales is also significant. Over **100,000 jobs** are estimated to have been generated by average annual MLS® resale housing activity in Canada over the period between January 2000 and November 2002.

** Multiple Listing Service® and MLS® are registered certification marks owned by The Canadian Real Estate Association.*

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INTRODUCTION

Resale housing transactions in Canada generate significant economic activity. The purchase and sale of homes generates fees to professionals such as lawyers, appraisers, real estate agents, surveyors, etc. as well as taxes and fees to government. And when Canadians move house, they typically purchase new appliances or furnishings as well as undertaking renovations that tailor the new home to specific household requirements.

To quantify these effects, The Canadian Real Estate Association (CREA) commissioned Clayton Research to prepare estimates of the economic impacts resulting from MLS® home sales & purchases in Canada. This report presents a review of these estimates. The methodology used in its preparation is reviewed in the Appendix. In brief, it consisted of, first, estimating the expenditures typically associated with moving house and second, estimating the economic impacts of these expenditures in terms of jobs created in the economy.

Housing Transactions Generate Significant Spending in the Economy¹

Purchases and sales of homes trigger additional expenditures that have broad economic impact.

It is estimated that a total of \$19,800 in additional expenditure is generated by the average housing transaction in Canada.

Figure 1 indicates the distribution of these expenditures among the various services and goods typically associated with housing transactions. Although the analysis was based on spending in 2000, the returns capture typical spending by household in the first, second and third year after purchase. A number of professional fees are involved, including legal and real estate fees, mortgage insurance premiums, fees for appraisals, surveys and other services involved in the purchase and sale of a home.

¹ For purposes of this paper, a transaction is defined as the sale of a home by a vendor to a purchaser and all expenditures typically associated with the change of ownership.

Figure 1

**Estimated Expenditures Generated by the
Average Housing Transaction Canada, 2000**

	<u>Dollars</u>
General Household Purchases	1,315
Furniture and Appliances	3,385
Moving Costs	490
Renovations	3,550
Services: financial, legal, real estate appraisal, survey, other professionals	9,485
Taxes (excluding GST)	<u>1,535</u>
Total	19,760

Source: Estimates by Clayton Research based on special tabulations from Statistics Canada 2000 Survey of Household Spending

The figure reflects the importance of renovation work associated with moving house – a figure that includes repairs and alterations to both the structure itself and the surrounding yard.

In addition, there are significant expenditures for furniture and appliances and general household purchases such as bedding, towels, lighting fixtures, tools, blinds etc. Moving costs and taxes such as land transfer taxes also enter the picture.

Total expenditure of \$19,800 relates only to the costs of moving from one home to another. It does not include any construction expenditures by the sellers of homes in order to prepare their properties for sale (or, in the case of new housing, the construction expenditures involved in building the home).

Spin-off Benefits of MLS® Activity Average 7.5 Billion Annually From 2000 to 2002²

There are a large number of resale housing transactions in Canada every year. Between January 2000 and November 2002 an average of 381,900 homes changed hands annually through the Multiple Listing Service (MLS®) of real estate boards across Canada.

Considering the average of \$19,800 additional expenditure per transaction, it is clear that home purchases and sales generate very significant volumes of

² The Multiple Listing Service (MLS®) is a co-operative listing system operated by real estate boards to provide maximum exposure to properties for sale. MLS® is a registered certification mark owned by The Canadian Real Estate Association.

spending and major spin-offs to other industries. For the average of 381,900 homes processed annually through MLS® during the period between January 2000 and November 2002, spending attributable to moving house totalled over \$7.5 billion per year – a significant contribution to the total Canadian economy.

An Average of Over 100,000 Direct and Indirect Jobs Generated by Annual Average Home Sales Through MLS®

Expenditures on activities such as purchasing a home result in three distinct rounds of impacts on the economy:

- **Direct impacts** – economic activity in the industries supplying the products and services to the home buyers. Examples include the jobs generated in the appliance, construction and real estate sectors involved in producing and providing the specific goods and services require by the purchaser.
- **Indirect impacts** – economic activity in industries providing goods and services to the industries involved in the direct round. Examples include the raw materials and components used in producing appliances purchased by home buyers; the wood and other industries involved in providing inputs to the manufacture of building products used in home renovations; and the computers and other goods used by financial and real estate service firms involved in the sale of financing of the home. The chain reaction spreads across the economy and provides employment in a wide range of industries which supply those directly involved in providing goods and services to the home buyer.
- **Spin-off impacts** – the so-called Keynesian multiplier effect resulting from the expenditure of incomes generated in the first two rounds. The wages, salaries and other income which accrue to households as a result of the direct and indirect rounds will, in turn, generate economic activity as these households spend their incomes in the general economy. The relationship between these spin-off impacts and the initial expenditure resulting from the purchase of a home is less clear than for the direct and indirect rounds – much household spending would occur regardless of whether it is financed by wages and salaries or through unemployment insurance, other government transfers or savings if the direct and indirect employment did not occur.

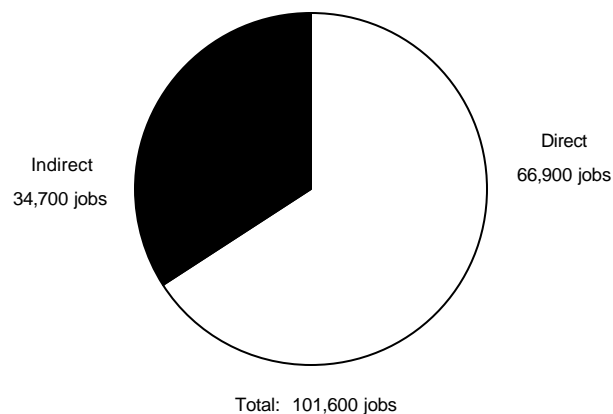
Direct and indirect employment resulting from housing sales in Canada is significant. A total of 101,600 jobs are estimated to have been generated by average annual MLS® homes sales in Canada over the period between January 2000 and November 2002.

Most of these jobs (66,900) were generated in the direct round – the jobs required to produce the goods and services purchased by home buyers. The remaining 34,700 jobs were generated to provide inputs necessary to produce the goods and services which were purchased directly by home buyers.

Figure 2

Average Annual Direct and Indirect Employment Generated by MLS® Home Sales

Canada, January 2000 – November 2002



Source: Clayton Research based on Statistics Canada Input-Output Model

Main Impacts from Housing Transactions are in Finance and Real Estate But Many Other Industries Also Benefit

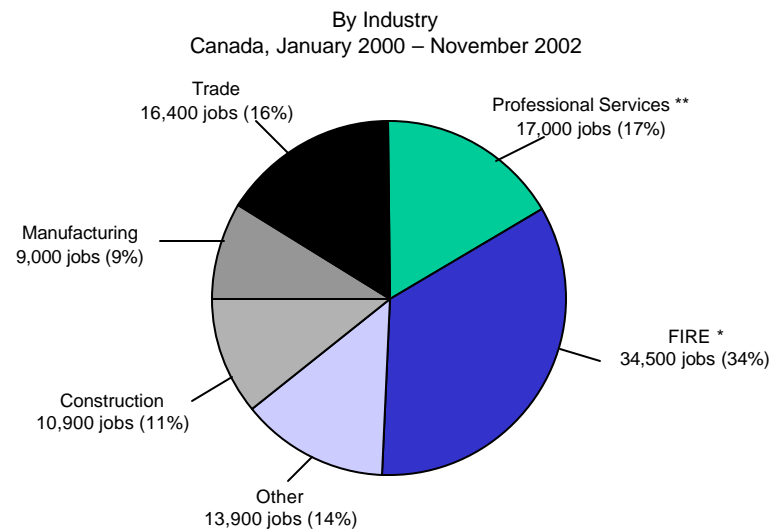
The finance, insurance and real estate industry accounts for almost 35 percent of the total direct and indirect employment generated by home sales. A total of about 34,500 jobs are estimated as a result of the average number of MLS® home sales annually during the period between January 2000 and November 2002.

A significant number of jobs are also created in a variety of other industries – trade, manufacturing, construction and other services all account for between 9 and 17 percent of the total direct and indirect jobs generated by

home sales. In each of these industries, between 9,000 and 17,000 jobs are estimated to have been directly or indirectly generated annually as a result of the average number of MLS® home sales during the period between January 2000 and November 2002.

Figure 3

Average Annual Direct and Indirect Employment Generated by MLS® Home Sales



* Finance Insurance and Real Estate ** Includes public service jobs
Source: Clayton Research based on Statistics Canada Input-Output Model

Most of the jobs in the finance, insurance and real estate industry are generated in the direct round. Lawyers, real estate agents, appraisers, surveyors, etc. all play a significant role in the sale of a home. Almost 85 percent of the jobs generated in this industry are in the direct round.

In the construction industry, most of the impacts are also in the direct round – over 92 percent. This reflects large renovation expenditures which typically occur when someone moves into a home.

For the other industries, (e.g. manufacturing, trade and services) most of the employment impacts are in the indirect round – supplying goods and services to industries involved in the direct round. In the community and personal service industries, for example, over 60 percent of the jobs created are in the indirect round.

Figure 4

**Average Annual Direct and Indirect Employment Generated
by MLS[®] Home Sales*, Canada, 2000-2002**

Industry	Direct	Indirect	Total: Direct and Indirect
	(000s)	(000s)	(000s)
Primary Industries**	0.0	0.8	0.8
Manufacturing	4.2	4.8	9.0
Construction	10.0	0.9	10.9
Transportation and Storage	1.9	3.1	4.9
Communication	0.5	1.8	2.3
Other Utility	0.0	0.3	0.3
Wholesales Trade	1.1	2.4	3.6
Retail Trade	10.8	2.1	12.9
Finance, Insurance and Real Estate	29.4	5.0	34.4
Community, Personal and Business Services	9.0	13.6	22.6
Total	66.9	34.7	101.6

* Columns and rows may not sum to totals due to rounding.

** Includes agricultural and related services, fishing and trapping, logging and forestry, and mining, quarrying and oil well industries.

Source: Clayton Research based on Statistics Canada 1999 Input-Output Model

APPENDIX

Estimates of the Economic Impacts of Housing Sales

This appendix reviews the methodology used to generate estimates of the economic impacts resulting from purchases of homes in Canada. The methodology can be broadly divided into two sections:

- Estimating the expenditures generated as a result of home purchases; and
- Estimating the economic impacts of these expenditures

A summary of the methodology used by Clayton Research to generate each of these estimates is provided below.

Estimating the Expenditures Generated as a Result of Housing Transactions

To provide estimates of the amount spent by families who moved house, special tabulations were obtained from Statistics Canada's 2000 *Survey of Household Spending*. These tabulations provided estimates of the expenditures of families during the first, second and third years after purchase a house versus all other owners. The average expenditures of families who had moved in either of 2000, 1999 or 1998 versus those who had not moved were then compared for a variety of expenditures categories which were considered likely to be affected by moving to a different home. From these data and additional analysis, estimates of the average expenditures generated by families who move to a different dwelling were prepared.

Actual estimated expenditures generated by movers are summarized later in this appendix. It should be noted here that these include only the expenditures incurred by the family which moved to a dwelling. This included items such as moving costs, new appliances or equipment to be used in the home, renovation expenditures, fees paid to lawyers, surveyors, mortgage lenders and real estate agents, etc. The analysis did not distinguish between those moving into a new home versus a resale home, and it did not include the additional economic impacts which would have been generated through the construction of new homes.

Estimating the Economic Impacts of Expenditures Generated as a Result of Home Purchases

Estimates for the economic impact of additional expenditures generated by moving to a different home were derived through the use of Statistics Canada National Input-Output Model. The current model relates to the year 1999. An input-output model is useful to estimate the impacts of various types of economic activities. It is an accounting framework of an economy's production system. It shows the interconnections that exist between the various sectors of the economy when goods and services are produced. Using an input-output model, it is possible to determine which goods and services are required to achieve a certain production level in a particular industry – or the economy as whole.

The model can take an estimate of expenditures on a given economic activity (in this case, moving to a different home) and translate it into the impacts on various industries – and ultimately, the amount of income and jobs created. A key component of an input-output model is the set of “input structures” for each economic activity covered by the model. An input structure literally splits the original expenditure among all the different inputs which are used in that economy activity. For example, in purchasing a home, expenditures are incurred in a variety of industries – appliances, construction, various service industries, etc. Each of these industries has an input structure of its own which involves inputs from a variety of other industries plus labour and owners of firms in that industry.

An input-output model includes a full array of input structures which have been estimated for all industries in the economy. Use of the model in this analysis involves estimating the impacts of spending incurred by those who move to a different dwelling. To generate these estimates, it was necessary first to provide an “input structure” for households that move to a different dwelling. To formulate this input structure, the estimates of average expenditures generated by families who move to a different dwelling derived from the analysis of the Survey of Household Spending were converted into the input categories used by the Statistics Canada National Input-Output model. Specifically, estimated spending per mover in each of the affected expenditure categories is reflected in the table summarized in the report (Figure 1).

This input structure was used by Statistics Canada to simulate the impacts on spending by movers using the National Input-Output model. In generating the estimates, Statistics Canada grossed the expenditures up to

\$19.8 million (i.e. to cover the estimated spending of 1,000 movers). The results were re-estimated by Clayton Research based on the average annual MLS[®] sales over the 2000-2002 period and are presented in the main body of the report.

The findings are presented in terms of "jobs" generated. This is the term used by the Input-Output Division of Statistics Canada in its estimates of employment generated. The term "jobs" is close to but not the same as "person-years of employment". The estimate of jobs provides the number of workers which would be employed for a full-year; however, the estimate includes both full and permanent part-time jobs at the ratios appropriate for each of the industries involved.