Washington Research Council

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The Contribution of Real Estate to the Washington State Economy

BRIEFLY

Real estate is the base upon which the state's economy is built. Directly and indirectly, it accounts for a quarter of state employment. Taxes on real estate and real estate related industries provide much of state and local governments' tax revenues.

GROWTH IN PERSPECTIVE 7

On the most basic level, Washington state is real estate. The state covers a roughly rectangular area of 70,000 square miles.

According to the U.S. Department of Agriculture, forests cover more than one half of the state's lands. Crops, pasture, range, and the Conservation Reserve Program account for another 35 percent. Only 5 percent of the state's lands are developed. [1]

This real estate supports a diverse economy. On the rich farmlands east of the Cascades, farmers harvest a bounty of wheat, apples and other crops. From private, state, and federal forestlands, loggers harvest timber to feed lumber and pulp mills. In giant industrial buildings, machinists assemble airliners. In suburban office parks, programmers write computer code. In urban laboratories, scientists search for new life-saving drugs. The people who work for these businesses live in houses, condominiums and apartments, and they buy the necessities of life in supermarkets and shopping centers.

There could be no state economy without real estate.

No tangible asset is more important to the economy than real estate. Throughout its history the nation's economic growth has been propelled by public policies promoting property ownership and development.

Real estate represents over 40 percent of Americans' wealth

TABLE 1

Uses of Washington Land, 1997

(thousands of acres)

Federal land		
Forest land	9,541	22%
Other	2,382	6%
Non-Federal Land		
Developed	2,065	5%
Cropland	6,656	16%
Conservation Reserve Program	1,017	2%
Pastureland	1,193	3%
Rangeland	5,857	14%
Forest land	12,835	30%
Other rural land	951	2%
Total	42,497	100%

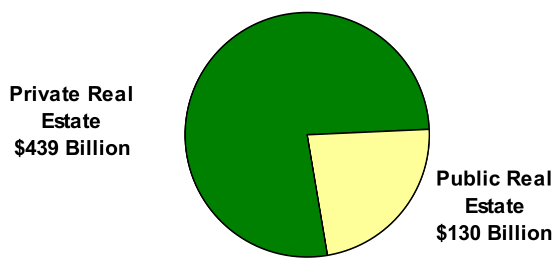
Sources: USDA National Resources Conservation Service Natural Resources Inventory; USDA Forest Service 1997 RPA Assessment

In the 4th quarter of 2000, the Federal Reserve Board estimated the net worth of American households and non-profit organizations to be about \$41.4 trillion. The value of U.S. real estate was about \$17.2 trillion. Real estate directly owned by households represented \$11.0 trillion of this total. Non-farm, nonfinancial businesses owned an additional \$4.9 trillion, while non-profits owned about \$1.3 trillion.

The \$17.2 trillion value of real estate was more than twice the value of U.S. personal income for 2000, \$8.3 trillion. [2]

CHART 1

In 1999, Washington's real estate was worth $569 billion



Source: Washington State Department of Revenue, WRC

In Washington state, for 1999, the value of private real estate, subject to the property tax, was $423 billion. This value was 2.4 times the $175 billion value of state residents' personal income for the year. (An additional $30.4 billion in personal property was subject to the property tax.) [3]

In addition, governments held real estate worth roughly $130 billion; non-profit private entities had about $10 billion worth of property; and private property worth about $6 billion was exempt. [4] (See Chart 1.)

Real estate industries directly provide almost 10 percent of state jobs and 6 percent of state personal income

As noted above, all of the state's employment makes use of real estate in one way or another. However, certain industries are directly engaged in the enhancement and management of real estate. Four of these industries are identifiable in state employment data: general building construction, special trade construction (trades such as plumbing, masonry, and electrical), retailing of building materials and hardware, and real estate (real estate operators, developers, agents, and brokers). In 1999, these four industries provided 327,000 jobs in Washington state, 9.4 percent of the state's total employment. [5]

General building and special trade contractors accounted for nearly 189,000 jobs; retailers of building materials and supplies provided 25,000 jobs, while the real estate industry, real estate operators, developers, agents, and brokers, provided 113,000 jobs.

These jobs generated $10.4 billion in personal income, including $6.6 billion in wages and salaries. (See Table 2)

TABLE 2

Direct employment and income in real estate industries in 1999

	Employment	Personal Income	Wages and salaries
General building contractors	57,969	2,289,069	1,588,936
Special trade contractors	130,679	4,983,091	3,347,559
Building materials and garden equipment	25,439	712,340	613,205
Real estate	113,403	2,366,777	1,005,808
State Totals	3,488,620	174,948,129	103,397,869

Source: Bureau of Economic Analysis

Accounting for the multiplier effect raises share of jobs related to real estate to 24 percent

Industries within the state are linked in a web of purchase and sales relationships. As a result, when one of the states industries expands, increased activity ripples through the state's economy. The money goes round and round. Economists construct "multipliers" to capture the effects of these linkages.

The Washington Input-Output model provides multipliers for various state industries, which can be used to calculate the full impacts of real estate related industries on Washington employment.

TABLE 3

When indirect effects are included, real estate accounted for 24 percent of state jobs in 1999

	Direct Employment	Indirect Employment	Total	Share Of State Employment
General building contractors	57,969	96,634	154,603	4.4%
Special trade contractors	130,679	217,842	348,521	10.0%
Building materials and garden equipment	25,439	22,106	47,545	1.4%
Real estate	113,403	174,981	288,384	8.3%

Source: Bureau of Economic Analyses, WRC

The total employment multiplier for construction other than highways is 2.667. Thus for every person directly employed, construction supports an additional 1.667 jobs. The total employment multiplier for the Finance, insurance and real estate industry is 2.543. The multiplier for retailing is 1.869. [6]

The effects of these multipliers are shown in Table 3. The 188,600 jobs in general building and trade construction ripple through the economy to produce another 314,500 jobs for a total of 503,100. Similarly, besides those directly employed, the retailing of building materials and garden equipment supports 22,100 indirect jobs supports and real estate supports 175,000 indirect jobs. Together, these four real estate related industries accounted for 839,000 jobs, nearly one-quarter of the state's total.

The Urban Land Institute reports "in newer, rapidly developing economies, real estate markets can propel economic growth." Construction activities may account for 9 to 12 percent of employment in a growing economy but only 2 to 4 percent in an economy that is stagnant. [7]

Direct taxes on real estate and real estate related industries provide significant tax revenues to state and local government

Many vital community services are made possible by revenues derived from real estate.

The property tax is the largest single tax levied directly on real estate. It accounts for about 30 percent of taxes collected by state and local government in Washington. Property tax levies totaling over $5.4 billion were due in the state in 2000. About 93 percent of this, or $5 billion, was levied against real property. [8]

A second major real estate tax source is the real estate excise tax. This tax is imposed on the transfer of ownership of real estate. For FY 1999 the REET was levied against sales with a total value of $33 billion, generating $423 million for the state. For calendar year 1999, the REET generated $161 million for cities and counties. [9]

In addition, considerable business and occupation (B&O) tax and sales tax revenues are generated by industries that are directly tied to real estate.

Construction generated $110 million in B&O taxes in 1999. Of this $46 million was for general building contractors and $51 million was for special trade contractors (including plumbing, heating, and electrical). Heavy construction, such as highways, accounted for $14 million. [10]

Wholesaling of lumber and construction materials generated $19 million in B&O, while retailing building materials and hardware generated $24 million in B&O.

The real estate industry generated $33 million in B&O.

Contracting generated $833 million in state sales tax and roughly $134 million in local sales tax in 1999. Retail sales of building materials and hardware totaled $210 million in state and $34 million in local sales tax.

In summary, real estate is the base upon which the state's economy is built. Directly and indirectly, it accounts for a quarter of state employment. Taxes on real estate and real estate related industries provide much of state and local governments' tax revenues.

As federal, state, and local governments consider land use controls, development regulations, and other growth management measures that restrict the use of real estate, it would be wise to consider the potential consequences in lost jobs, personal income, and tax revenue.

Endnotes

[1] United Sates Department of Agriculture: Natural Resources Conservation Service Natural Resources Inventory and Forest Service 1997 RPA Assessment.

[2] Federal Reserve Board, *Flow of Funds Accounts of the United States.*

[3] Department of Revenue, *Tax Statistics 1999.*

[4] Property values imputed from revenue losses due to the exemptions reported in Department of Revenue, *Tax Exemptions 2000*.

[5] U.S. Department of Commerce, Bureau of Economic Analysis.

[6] Office of Financial Management, *Washington State Input Output, 1987 Study*.

[7] Urban Land Institute, *America's Real Estate: Natural Resource, National Legacy*, page 16.

[8] *Property tax statistics 2000, Tax Statistics 1999.*

[9] *Tax Statistics 1999*, State Auditor, Local Government Finance Reporting System.

[10] Department of Revenue, *Quarterly Business Review, Calender 1999*.

108 S. Washington St., Suite 406

Seattle WA 98104-3408

PH 206-467-7088

FX 206-467-6957

www.researchcouncil.org