Economic Impacts of MLS® Home Sales and Purchases in Canada and the Provinces

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Altus Group

CREA THE CANADIAN REAL ESTATE ASSOCIATION

Economic Impacts of MLS® Home Sales and Purchases in Canada and the Provinces

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The Canadian Real Estate Association

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EXECUTIVE SUMMARY

Resale housing transactions across Canada generate significant economic activity. The purchase and sale of homes via the Multiple Listing Service® (MLS®)[1] generates fees to professionals such as lawyers, appraisers, real estate agents, surveyors, etc., as well as taxes and fees to government. In addition, when Canadians move house, they typically purchase new appliances or furnishings and undertake renovations that tailor the new home to specific household requirements.

During the period between 2008 and 2010, for example, it is estimated that a total of **$42,350** in ancillary spending (i.e. spending by purchasers on items other than the actual house and land) was generated by the average housing transaction in Canada. Per transaction, ancillary spending varied somewhat by region, ranging from **$27,075** in Atlantic Canada to **$59,675** in B.C.

Considering an average **448,370** home[2] sales processed annually through MLS® during that period, ancillary spending attributable to moving house totalled **$19.0 billion per year** across Canada – a significant contribution to the total Canadian economy. Over 40% of these spin-off benefits were generated in Ontario alone where homebuyers contributed **$7.7 billion** to the economy. Over the last few years, the economic contribution from home sales through MLS® has been steadily rising with a temporary slowdown during the 2009 recession.

Direct and indirect employment resulting from housing sales is also significant. Some **156,200 jobs** are estimated to have been generated by average annual MLS® resale housing activity in Canada over the period between 2008 and 2010. Canada-wide, about one in five of the jobs generated are found in the finance, insurance, and real estate sector (FIRE). This sector benefited the most in Alberta, accounting for some 28% of jobs generated by home sales and purchases in that province, and the least in Saskatchewan, accounting for just about 13%.

The recent recession lowered spending on appliances and renovations, which influenced the magnitude of these impacts. As a result, total incremental spending is down from the 2006-2008 period, but remains higher than the 2004-2006 period.

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

[2] The total is the sum of 10 provinces.

ECONOMIC IMPACTS OF MLS® HOME SALES AND PURCHASES

INTRODUCTION

Resale housing transactions across 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. In addition, homebuyers often purchase new appliances or furnishings and typically undertake renovations that tailor the new home to specific household requirements.

To quantify these effects, The Canadian Real Estate Association (CREA) commissioned Altus Group Economic Consulting to prepare estimates of the economic impacts resulting from MLS® home sales and purchases in Canada and the 10 provinces. At the national level, this report provides an update to similar efforts undertaken by Altus Group Economic Consulting on behalf of CREA, examining the 1990-1992, 2000-2002, 2004-2006, and 2006-2008 periods. At the provincial level, this report provides an update to similar work undertaken by Altus Group Economic Consulting where we provided a comprehensive set of economic impact estimates for MLS® home sales and purchases based on an integrated interprovincial input-output model for the 2004-2006 and 2006-2008 periods.

Three measures of economic impact are assessed in this report:

- Average ancillary spending per housing transaction (by region);
- Annual average spin-off benefits based on all MLS® sales and purchases over the past three years; and
- Annual average direct and indirect employment by sector generated through all MLS® sales and purchases over the past three years.

This report presents a review of these national and provincial estimates. The methodology used in its preparation is presented in the Appendix.

CANADA'S RECENT ECONOMIC RECESSION

The Canadian economy entered into an economic recession in early 2008 that is thought to have lasted some six quarters. While the causes of the Canadian recession were largely linked to international events, the effects on Canadian households were significant. Between the third quarter of 2008 and the third quarter of 2009, some 323,233 jobs were lost across the Canadian economy and the pace of employment recovery was slow thereafter, not returning to pre-recession peaks until early 2011. The recession also affected household incomes and, ultimately, consumer confidence.

The reference period for the current study (2008-2010) largely overlaps with the recession and the early part of the recovery. The results in the present study show that the recession has had an influence on the magnitude of the economic impacts of MLS® home sales and purchases. Firstly, the number of homes sold through MLS® Systems declined in the current study period (2008-2010) relative to the previous study (2006-2008). Secondly, the average spending per transaction declined modestly between the last study and the current study.

It is of note, however, that despite the recession, on both accounts, the results in the current study show stronger economic impacts than a previous study conducted in 2007 and related to the years 2004-2006.

In many ways the results contained in the 2009 study (2006-2008 reference period) may stand as a high-water mark going forward, as they illustrate very buoyant activity in terms of transactions and in terms of the demographics behind the transactions, immediately prior to the recession.

The practice in the current study will be to compare the current results primarily to those from the 2007 study, as this will give the reader a clearer view of longer-term trends. Where relevant, references will be made to the 2009 study.

HOUSING TRANSACTIONS GENERATE SIGNIFICANT SPENDING IN THE ECONOMY[3]

Purchases and sales of homes trigger additional expenditures that have broad economic impact. The current study estimates that a total of $42,350 in ancillary expenditures is generated by the average housing transaction in Canada over a period of three years from the date of purchase. This is much more favourable compared to the analysis from the 2007 study, although it is modestly lower than the incremental spending reported in the 2009 study. It is clear that there is a long-term upward trend in incremental spending by recent homebuyers. On a per household basis, economic contributions from MLS® home sales and purchases have been rising over the long-term.

Figure 1 indicates the distribution of these expenditures among the various services and goods typically associated with housing transactions, for Canada and five regions[4]. Although the analysis was based on spending in 2009, 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.

Figure 1

Estimated Expenditures Generated by the Average Housing Transaction Canada and Regions, 2009

	Canada	Atlantic	QC	ON	Prairies	BC
			Dollars			
General Household Purchases	2,400	2,150	2,325	2,375	2,575	2,350
Furniture and Appliances	5,300	4,225	5,300	4,750	5,550	6,650
Moving Costs	2,475	2,350	3,175	2,325	1,875	2,750
Renovations	9,400	6,725	10,425	8,800	9,600	10,400
Services: Financial, legal, real estate appraisal, survey, other professionals	18,200	9,900	12,275	16,950	14,025	28,475
Taxes (excluding GST)	4,575	1,725	2,500	5,150	1,350	9,050
Total	42,350	27,075	36,000	40,350	34,975	59,675

Source: Altus Group Economic Consulting based on Statistics Canada Input-Output Model

The analysis 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. Canada-wide, owners of recently purchased homes spent an incremental (over and above typical spending) $9,400 on renovations during the first three years after the purchase. Across Canada, incremental spending on renovations varies from $6,725 per household in Atlantic Canada to $10,400 in B.C.

In addition, there are also 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 – especially in Ontario and B.C. – also enter the picture.

The $42,350 in ancillary expenditures per transaction relates only to the costs of moving from one home to another. It does not include any renovation expenditures by the vendors of homes, preparing their properties for sale (or, in the case of new housing, the construction expenditures involved in the building and fitting of the home).

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

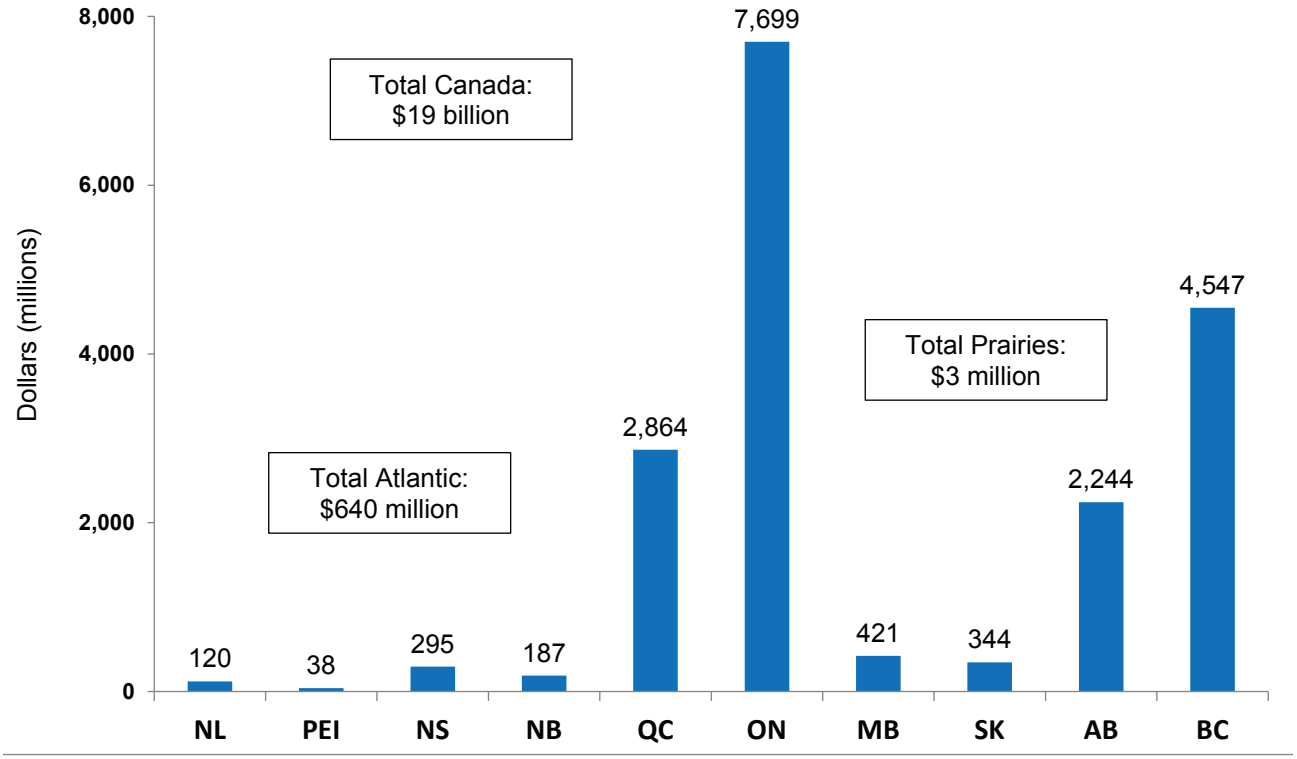
[4] These data are based on an analysis from the Survey of Household Spending, and due to sample sizes in that survey, the analysis has had to be completed at the regional level rather than the provincial level.

SPIN-OFF BENEFITS OF MLS® ACTIVITY AVERAGE $19.0 BILLION ANNUALLY FROM 2008 TO 2010

There are a large number of resale housing transactions in Canada every year. Between 2008 and 2010, an average of 448,370 homes changed hands annually through the Multiple Listing Service® (MLS®)[5] of real estate Boards and Associations across Canada.

Figure 2

Average Annual Spin-Off Benefits of MLS® Activity, Canada and Provinces, 2008-2010



Source: Altus Group Economic Consulting based on Statistics Canada Input-Output Model

Considering the average of $42,350 in additional expenditures per transaction, it is clear that home purchases and sales generate very significant volumes of spending and major spin-offs to other industries. For the average 448,370 homes processed annually through MLS® Systems in Canada during the period between 2008 and 2010, spending attributable to moving house totalled $19 billion per year – a significant contribution to the Canadian economy. This is a significant improvement from the $15 billion reported in the 2007 report. However, this is somewhat lower than the economic contribution reported in the 2009 study, underscoring the effects of the recent recession. This distribution of spending has also shifted modestly over the past three studies. Compared to the 2004-2006 period, total incremental spending is modestly higher, but there has been a shift in general household purchases and taxes in terms of the composition, and away from incremental renovation spending. The long-term view is that there is an upward trend in the contribution from MLS® transactions to the Canadian economy.

Spin-off benefits from MLS® home sales and purchases were significant in all provinces. Figure 2 illustrates the total ancillary spending by province. A majority of the spending nationwide is found in Canada's largest four provinces: Quebec, Ontario, Alberta, and B.C. All provinces experienced millions of dollars of annual spin-off benefits from home sales through this period.

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

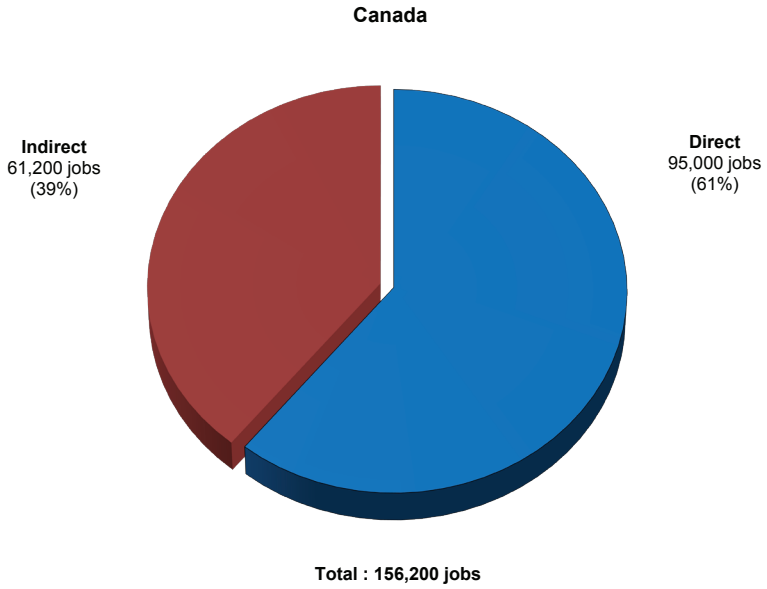
AN AVERAGE OF 156,200 DIRECT AND INDIRECT JOBS GENERATED ANNUALLY BY HOME SALES AND PURCHASES THROUGH MLS®

Expenditures on activities such as purchasing a home result in three distinct rounds of impacts on the economy (see Figure 3):

- **Direct impacts –** economic activity in the industries supplying products and services to homebuyers. Examples include jobs generated in the appliance, construction, and real estate sectors involved in producing and providing the specific goods and services required by purchasers.
- **Indirect impacts –** economic activity in industries providing goods and services to the industries involved in the direct round. Examples include raw materials and components used in producing appliances purchased by homebuyers; the wood and other industries involved in providing inputs to the manufacture of building products used in home renovations; and computers and other goods used by financial and real estate service firms involved in the sale of financing for the home. The chain reaction spreads across the economy and provides employment in a wide range of industries that supply those directly involved in providing goods and services to the homebuyer.
- **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 that 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.

Figure 3

Average Annual Direct and Indirect Employment Generated by MLS® Home Sales, 2008-2010



Source: Altus Group Economic Consulting based on Statistics Canada Input-Output Model

Direct and indirect employment resulting from housing sales in Canada is significant. A total of 156,200 jobs are estimated to have been generated annually by MLS® home sales in Canada over the period 2008-2010.

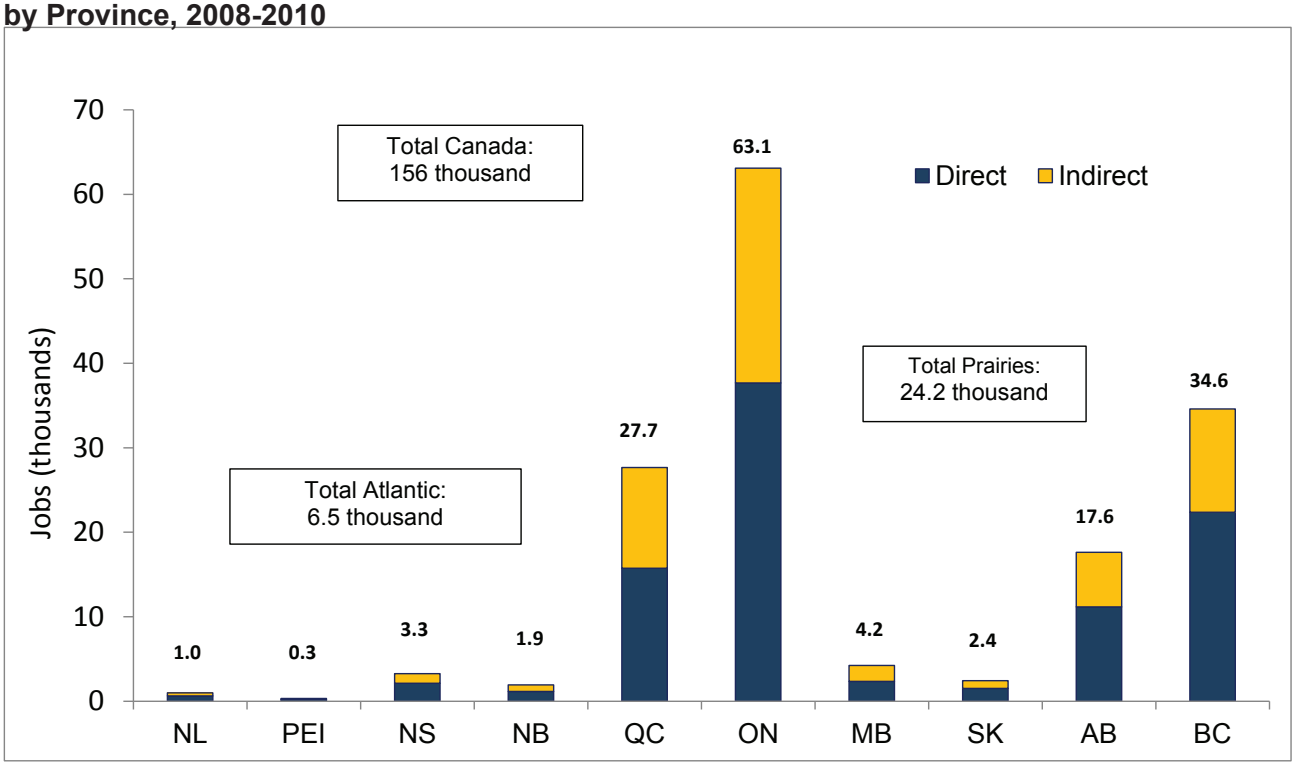
Most of these jobs (95,000) were generated in the direct round – the jobs required to produce the goods and services purchased by homebuyers. The remaining 61,200 jobs were generated to provide inputs necessary to produce the goods and services that were purchased directly by homebuyers.

The results from the current analysis show a modestly smaller jobs impact than in the previous two studies. In part, jobs impacts do tend to modify over time, due to productivity factors. But in particular, there has been a modest shift in the composition of incremental spending related to MLS® home sales – away from renovation spending (which has a very high employment multiplier) and toward general household goods (a somewhat lower multiplier) and taxes (which generate no jobs).

Figure 4 illustrates the distribution of direct and indirect jobs generated by home sales and purchases by province.

Figure 4

Average Annual Direct and Indirect Employment Generated by MLS® Home Sales by Province, 2008-2010



Source: Altus Group Economic Consulting based on Statistics Canada Input-Output Model

All told, jobs generated directly and indirectly through the sale and purchase of MLS® homes accounts for about 1 in 109 jobs across the entire economy.

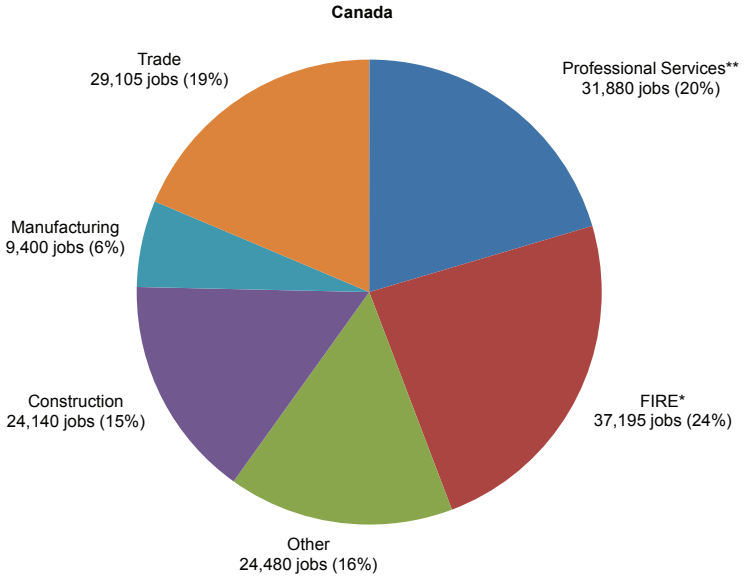
MAIN IMPACTS FROM HOUSING TRANSACTIONS ARE IN FINANCE, REAL ESTATE, AND CONSTRUCTION BUT MANY OTHER INDUSTRIES ALSO BENEFIT

The finance, insurance, and real estate industry accounts for some 24% of the total direct and indirect employment generated by home sales through MLS® (see Figure 5). Approximately 37,195 jobs have been created in these sectors as a result of the average number of MLS® home sales annually during the period 2008-2010.

The construction industry also benefits from MLS® home sales – some 24,140 construction jobs are created annually, representing some 15% of the total direct and indirect employment created by MLS® transactions.

Figure 5

Average Annual Direct and Indirect Employment by Industry, Generated by MLS® Home Sales, 2008-2010



* Finance, Insurance, and Real Estate **Includes Public Service Jobs
Source: Altus Group Economic Consulting based on Statistics Canada Input-Output Model

A significant number of jobs were also created in a variety of other industries – trade, manufacturing, and other services all have jobs that rely on economic activity generated by the sale and purchase of MLS® homes in Canada.

Most of the jobs in the finance, insurance, and real estate industries are generated in the direct round (see Figure 6). Lawyers, real estate agents, appraisers, surveyors, etc. all play significant roles in the sale of a home. About 79% of the jobs generated in these industries are in the direct round.

In the construction industry, most of the impacts are also in the direct round – approximately 95%. In general, renovation and repair expenditures typically occur when someone moves into a home and these works are directly related to a home purchase.

For the other industries (e.g. manufacturing, professional, and other services), most of the employment impacts are in the indirect round – supplying goods and services to industries involved in the direct round.

Figure 6

Average Annual Direct and Indirect Employment by Industry, Generated by MLS® Home Sales and Purchases, Canada, 2008-2010

	Direct	Indirect	Total	Distribution	Direct as % of Total
		Jobs		%	
Manufacturing	1,410	7,990	9,400	6	15
Construction	23,020	1,120	24,140	15	95
Trade	20,285	8,820	29,105	19	70
FIRE[1]	29,490	7,705	37,195	24	79
Professional Services[2]	14,315	17,565	31,880	20	45
Other	6,600	17,880	24,480	16	27
Total	95,120	61,080	156,200	100	61

[1] Finance, Insurance, and Real Estate
[2] Includes Government
Source: Altus Group Economic Consulting based on Statistics Canada Input-Output Model

MLS® SALES AND PURCHASES HAVE A MAJOR IMPACT ON JOB CREATION IN EVERY PROVINCE

Figure 7 illustrates the employment impacts from ancillary spending related to the sale and purchase of homes through Board MLS® Systems by province. Some notable observations include:

- Atlantic Canada is the region with the lowest relative economic impact from existing home sales. The total jobs generated by the sale and purchase of MLS® homes in Atlantic Canada – about 6,525 jobs – accounts for about 1 in 168 jobs across that economy, compared with 1 in 109 jobs Canada-wide.
- In Quebec, home sales have a particularly strong impact on jobs in the manufacturing sector, accounting for 10% of jobs generated from home sales, compared to 6% nation-wide. Since the employment impacts from this sector are derived in the indirect round, approximately 43% of the total jobs generated from MLS® home transactions in the province are indirect as opposed to direct – one of the highest in Canada.
- The profile of jobs generated in Ontario as a result of MLS® home sales is similar to the national average.
- Manitoba has the highest proportion of total jobs generated from MLS® home transactions are indirect as opposed to direct in Canada – approximately 44%. This is partially because a large number of jobs are created in the manufacturing and other service sectors, which have low direct job impact ratios.
- Home sales through MLS® in Saskatchewan generated 2,445 direct and indirect jobs, of which 27% are in the trade sector, the highest in Canada. On the contrary, jobs created in the finance, insurance, and real estate industries represent only 13% of the total, the lowest in Canada.
- In Alberta, the proportion of jobs generated in finance, insurance, and real estate industries is higher than the national average – 28% in the region versus the national average of 24%.
- B.C. experiences the highest relative job impact of any province. The sale and purchase of MLS® homes in B.C. generates 34,595 direct and indirect jobs – nearly 1 in 65 jobs across the entire B.C. economy, much higher than the national average of 1 in 109 jobs.

Figure 7

Average Annual Direct and Indirect Employment by Industry Generated by MLS® Home Sales and Purchases, by Province, 2008-2010

	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
Direct Jobs										
Manufacturing	5	0	50	45	525	440	70	10	95	190
Construction	110	60	465	285	3,550	10,165	605	445	2,375	4,980
Trade	170	60	445	295	3,870	8,110	650	520	2,135	4,080
FIRE[1]	175	35	800	200	4,705	12,705	465	230	4,175	6,000
Professional Services[2]	115	35	270	200	1,900	3,980	390	215	1,350	5,645
Other	60	20	110	140	1,200	2,285	170	110	1,030	1,460
Total	635	210	2,140	1,165	15,750	37,685	2,350	1,530	11,160	22,355
Indirect Jobs										
Manufacturing	35	10	110	140	2,290	3,075	395	115	710	1,185
Construction	0	0	25	10	120	580	30	15	95	245
Trade	55	20	170	90	1,875	3,530	245	145	940	1,775
FIRE[1]	35	10	150	75	1,245	3,625	155	95	775	1,545
Professional Services[2]	85	25	300	195	3,030	7,675	420	190	1,830	3,815
Other	150	40	380	265	3,350	6,935	635	355	2,125	3,675
Total	360	105	1,135	775	11,910	25,420	1,880	915	6,475	12,240
Total (Direct and Indirect) Jobs										
Manufacturing	40	10	160	185	2,815	3,515	465	125	805	1,375
Construction	110	60	490	295	3,670	10,745	635	460	2,470	5,225
Trade	225	80	615	385	5,745	11,640	895	665	3,075	5,855
FIRE[1]	210	45	950	275	5,950	16,330	620	325	4,950	7,545
Professional Services[2]	200	60	570	395	4,930	11,655	810	405	3,180	9,460
Other	210	60	490	405	4,550	9,220	805	465	3,155	5,135
Total	995	315	3,275	1,940	27,660	63,105	4,230	2,445	17,635	34,595

[1] Finance, Insurance, and Real Estate
[2] Includes Government
Source: Altus Group Economic Consulting based on Statistics Canada 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 Altus Group Economic Consulting 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 2009 Survey of Household Spending. These tabulations provided estimates of the expenditures by families during the first, second, and third years after purchasing a house, versus all other homeowners. The average expenditures of families who had moved in either 2009, 2008, or 2007 versus those who had not moved were then compared for a variety of expenditures categories that 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.

This analysis was conducted at the Canada-wide level. It was then indexed to the regional level, based on the average spending per reporting owner household for any given spending category compared with spending Canada-wide. Due to the suppression of data from the Survey of Household Spending because of small sample sizes in some provinces, this analysis was conducted at the regional level.

It should be noted here that these include only the expenditures incurred by the family that 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, etc. The only exception is a calculation included in the analysis to account for real estate brokerage fees generated from MLS® transactions, which in most cases are borne by the property vendor.

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 that 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's Interprovincial Input-Output Model. The current model relates to the year 2007. An input-output model is used 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 that 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 that 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 that 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 Interprovincial Input-Output model. Specifically, estimated spending per mover by region 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 Interprovincial Input-Output model. In generating the estimates, Statistics Canada grossed the expenditures up to $376.0 million (i.e. to cover the estimated spending of 10,000 movers), then distributed among the 10 provinces via an index of average MLS® transactions over the study period. The results were re-estimated by Altus Group Economic Consulting based on the average annual MLS® home sales over the 2008-2010 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 that 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.

The Interprovincial Input-Output model was run as one single simulation for all 10 provinces. Thus, the impacts of trade flows between provinces are imbedded in the estimates. In this way, the jobs generated by province presented in Figure 7 of the report reflect the impact of home sales in all provinces. In reality, although most jobs are generated from sales in the same province, some cross-provincial effects are present. For example, if a homebuyer in B.C. purchases a washing machine manufactured in Quebec, that ancillary spending will help create manufacturing jobs in Quebec. Conversely, if a home buyer in P.E.I. engages the services of a moving company that uses gasoline mined and refined in Alberta as an input, that ancillary spending activity will help generate oil and gas related jobs in Alberta.

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Any questions or comments about the service or products CREA provides?
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