2021 | Virginia REALTORS®

Economic Impacts of the Housing Industry in Virginia in 2020

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Executive Summary

The housing industry is a critical part of Virginia's economy. The housing sector provides a foundation for economic growth in part because it touches many different sectors of the economy and is important across all regions of the state. During the COVID-19 pandemic and economic recession of 2020, the residential real estate industry in Virginia proved to be one of the most resilient components of the state's economy and was a major boost to stabilizing and then growing state revenues.

- In 2020, Virginia's housing industry supported nearly $52 billion in total economic activity and supported more than 325,000 jobs in the commonwealth paying over $15 billion in labor income (see Figure ES1). This economic impact accounts for the direct, indirect, and induced effects of transactions related to buying and selling homes, building new homes, refinancing mortgages, renovating and remodeling homes, and managing and maintaining residential properties in 2020.

- Housing-related economic activities boosted revenues for state and local jurisdictions by more than $2.0 billion in 2020. This fiscal impact does not include most 2020 property taxes paid on existing homes, and therefore substantially understates the fiscal impact.

- At a time when many industries suffered severe downturns due to the COVID-19 pandemic and related business restrictions, housing industry professionals demonstrated remarkable flexibility and adaptability that allowed home sales activities to quickly rebound. Many REALTORS® and brokers experienced record sales years, and recordation fees provided an important boost to state tax revenues.

Figure ES1
Economic Impacts of Virginia's Real Estate Industry, 2020

Description	Impact
Output (transactions)	$51.77 Billion
Value Added (gross state product)	$28.6 Billion
Labor Income (salaries, wages, benefits)	$15.74 Billion
Jobs	325,702
State Taxes	$966 Million
Local Taxes	$1.1 Billion

Sources: GMU Center for Regional Analysis, Chmura Economics, IBIS World, industry sources, IMPLAN

Introduction

The housing industry is crucial for economic growth and development in Virginia. Previous studies for the Virginia Housing Policy Advisory Council[1] and Virginia REALTORS®[2] have documented just how important the residential real estate industry is to the Commonwealth of Virginia. This report presents updated results from an analysis of the economic impacts of housing industry activities in Virginia during 2020, during which the nation and Virginia experienced the sharpest economic downturn in more than seven decades. This research also estimates the impacts of housing activities and spending on state and local tax revenue. Finally, this report highlights how the housing industry contributed critical economic resiliency in the face of pandemic-induced economic disruptions in the Commonwealth of Virginia.

> Virginia's housing industry is a major contributor to overall economic activity and provided key jobs and income opportunities during the COVID-19 pandemic and economic crisis of 2020.

The research presented in this report was made possible by financial and informational support from Virginia REALTORS®. Virginia REALTORS® is the largest trade association in the Commonwealth of Virginia, providing business tools, legal help, networking opportunities, research and analysis, and political voice to its 36,000 members. The association closely monitors real estate trends and conducts and supports research to be able to communicate the importance of the real estate industry to local and state leaders and to help support a healthy and efficient real estate sector in the Commonwealth of Virginia.

Why the Housing Sector is Important

The housing industry truly impacts the lives of all individuals and families across Virginia. Decisions about where to live, work, and play all take the availability and quality of housing into consideration. The ability of businesses in Virginia to recruit and retain workers depends on those workers being able to find suitable housing. In addition, housing is a key economic driver; a range of sectors across the economy are supported by the activities of Virginia's housing sector.

This economic impact analysis estimates how dollars spent in the housing industry flow through the state economy and support economic growth.[3] Given the breadth of the housing industry, assessing the economic contributions of this sector requires examining and capturing market data across several related industries. Broadly, the housing industry is defined as including:

- Residential property construction, repair, and remodeling;
- Services to these structures, such as property maintenance and improvements;
- Services associated with the buying, selling, leasing, and management of residential properties;
- Retail trade focused on household fixtures and furnishings; and
- Housing-related services, such as pest control, cleaning, landscaping, and other services.

[1] Addressing the Impact of Housing for Virginia's Economy. November 2017. A Report for Virginia's Housing Policy Advisory Council.

[2] Virginia Real Estate: Economic Impact Analysis. 2017. A Report Prepared by Virginia REALTORS® and the George Mason University Center for Regional Analysis.

[3] In technical terms, performing an assessment of the impacts of existing industries and businesses is called a "contribution analysis." In this report, we use the more colloquially familiar term "economic impacts." The methodology of estimating how dollars spent in the housing industry flow through the state economy are the same, regardless of terminology.

This analysis does not include real estate industry sectors representing industrial, commercial, or institutional properties in this analysis, even if they are integrated into residential properties, such as mixed-use developments combining housing and retail properties. This analysis also does not include the economic value of public sector housing providers, except where construction, remodeling, or repair activities occur. Finally, this analysis does not quantify the value of the existing housing stock.

Data and Methods

This research uses an input-output analysis to quantify the economic impacts and fiscal revenues sparked by housing-related activities in 2020. This is a comprehensive approach that incorporates a wide range of economic sectors that are impacted by the housing industry. Some elements, such as construction of single- or multifamily homes, are obvious. Other sectors include services that are less visible but are critical to the residential real estate industry, such as attorneys who work in residential real estate transactions, loan officers who review mortgage applications, maintenance services for apartment buildings, and a range of other industries.[4]

Data for this economic impact analysis come from public sources, including the Bureau of Labor Statistics and Bureau of Economic Analysis, as well as from industry sources, including IBIS World and Chmura Economics.

Figure 1. Industries Included in the Impact Analysis

Industry	Description
Construction	Single-family housing, multifamily housing, manufactured and mobile homes, as well as home renovation and repair
Finance	Banks, other lending institutions (real estate), mortgage brokers
Insurance	Property insurance carriers and brokers, title insurance
Transport	Household moving services
Agencies	Non-profit housing agencies and related groups, including REALTOR® associations
Real Estate	Brokers, property managers, inspectors, appraisers, lawyers, and title companies
Retail Trade	Household furnishings, building materials, home centers (DIY only), appliances
Services	Household services, including design services, security systems, pest control, janitorial services, landscaping, waste collection, furniture and appliance repair, homeowners' associations, household domestic staff

[4] There are two important economic elements that are not included in this analysis. In national product tables, which show estimates of all U.S. economic activity, there is an accounting entry for the "Imputed Value of Homeownership." If a household owns a home outright, there is a recurring economic value to their home that is not captured by business transactions. The Imputed Value of Homeownership estimates the cost to the household if they were paying rent to themselves and this value is included in Gross Domestic Product. Since there is no actual transaction, this value is not included in this analysis. Also excluded is the economic value of Freddie Mac, even though that government enterprise is headquartered in Virginia, it was not possible to show how many employees at Freddie Mac are dedicated to serving loans for homes in Virginia.

The impact analysis estimates the direct, indirect, and induced effects of the housing industry in Virginia. **Direct effects** are the economic effects resulting from the spending by the housing industry itself. For example, a housing developer hires architects, engineers, and others to assist with project planning, and then will hire construction contractors to build residential units. **Indirect effects** capture the business-to-business purchases representing the construction supply chain. For example, the construction contractor buys materials and leases heavy equipment. The heavy equipment leasing company purchases the equipment, hires employees, buys parts to keep the equipment operating, and hires an accounting firm for bookkeeping duties. The accountant rents office space, hires workers, purchases office equipment and supplies, and hires a janitorial services company to clean the office, and so on. At each stage of spending, the input-output model adjusts for the proportion of purchases that stays within the specified study geography. **Induced effects** capture the economic value of the personal income earned by employees of all the direct and indirect businesses and the spending they do for goods and services within the commonwealth. The sum of the direct, indirect, and induced effects is usually greater than the direct spending. This difference is referred to as the multiplier effect.

The economic impacts of the housing industry are estimated using the IMPLAN economic input-output model, which is widely used in professional and academic research. The IMPLAN model provides estimates of total output (value of transactions), value added (gross state product), labor income (salaries, wages, and benefits), and jobs (headcount). The model also estimates revenue to state and local taxing jurisdictions, including sales and use taxes, income taxes, fees for licenses and permits, and other sources of government revenue resulting from the economic activity.

Without careful consideration, input-output modeling is susceptible to double counting when multiple industries are considered. For example, a plumber who works on a new residential construction project also owns a home and pays for landscaping services to mow the grass, which would be captured as an induced effect of the new residential construction project. Therefore, this analysis adjusts the impact estimates to avoid double counting any of the economic activity related to the housing industry.

Findings

In 2020, the housing industry contributed $51.8 billion in economic activity across the Commonwealth of Virginia. This level of economic activity boosted gross state product by $28.6 billion and supported more than 325,000 jobs in Virginia paying $15.7 billion in salaries, wages, and benefits (see Figure 2). In addition, the housing-related transactions accounted for in this analysis are estimated to have yielded nearly $2.1 billion in tax revenues for state and local jurisdictions.

ECONOMIC IMPACTS OF VIRGINIA'S HOUSING INDUSTRY (2020)

- $51.8 BILLION ECONOMIC ACTIVITY
- 325,700 JOBS
- $15.7 BILLION LABOR INCOME
- $2.1 BILLION STATE/LOCAL TAX REVENUES

Figure 2. Economic Impacts of Virginia's Real Estate Industry, 2020

Description	Impact
Output (transactions)	$51.77 Billion
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The Housing Industry During COVID-19

The onset of the COVID-19 pandemic and subsequent health-related business restrictions caused the worst economic upheaval since the Great Depression. Seemingly overnight, 10 million U.S. residents lost their jobs and entire sectors of the economy shut down, at least briefly. In Virginia, a total of nearly 450,000 jobs were lost in just two months in the spring of 2020.

The housing industry was initially impacted as heavily as any sector, as there was uncertainty about the extent of the public health crisis and the steps the government was taking to attempt to mitigate both the public health and economic impacts of the crisis. Last spring, many sellers pulled their homes off the market, and those that were left on the market could not be shown. In-person transactions, including real estate closings, were prohibited. Household services could not be performed initially because of social distancing requirements. Beyond the housing sector, leisure and hospitality firms, including restaurants and entertainment venues, many retailers, elective medical procedures, and other business activities stopped or slowed dramatically. State and local governments expected devastating losses of tax revenue and many preemptively laid off workers. State unemployment systems were overwhelmed and even with federal aid and increased unemployment benefits, some households went months without income.

Fortunately, the devastation did not spread to all sectors of the economy and some sectors were able to adapt. Many restaurants survived by switching to a takeaway/delivery service model. Retail chains, even those with traditional brick-and-mortar stores, dramatically expanded their online shopping operations.

Perhaps no industry adapted as quickly as residential real estate. Government officials recognized that home builders are "essential" businesses, and thus were allowed to continue operations. Housing professionals who support and manage the transaction side of housing, including REALTORS®, were remarkable in adapting new practices to accommodate a wide and changing range of operating restrictions. Home tours became virtual through high-quality videos or live curated showings using video camera technology and the dogged determination of professional REALTORS®. Mortgage brokers and companies transitioned in a manner of weeks to all electronic and limited-touch documentation. Title companies created a range of options for closing that met regulatory requirements and accommodated the preferences of home buyers and sellers.

Through these efforts, as well as a result of a determined pool of homebuyers and historically low mortgage rates, Virginia's housing industry had one of its best years ever:

- In 2020, there were nearly **140,000 home sales** across Virginia, which is up 11% compared to 2019 home sales. Sold volume totaled $53.6 billion in 2020, posting an 18% increase over 2019, which reflected both strong sales activity as well as vigorous price growth. In 2020, the median sales price in Virginia was 8% higher than in 2019. In some local markets, home prices increased much faster.
- Last year, there was a total of **33,867 permits issued for the construction of new housing units** in Virginia, including 24,139 permits for single-family homes and 9,728 permits for units in multifamily buildings (i.e., apartments and condominiums). New construction was up 3% in 2020 in Virginia, with the biggest gain in the single-family market, where permits for new single-family homes surged 13% in 2020 compared to 2019.

As the economy rapidly shifted gears, more people were looking for new homes that better accommodated working from home. At the same time, people were being restricted from dining out at restaurants, attending entertainment and sports events, and traveling. As a result, the tax revenue situation changed significantly at the state level.

Recent data from the Virginia Secretary of Finance demonstrate how, while total revenue is up dramatically, the sources of tax revenue have shifted.[5] For example, recordation tax revenue increased 42.5%, from $4.9 million in May 2020 to $7.0 million in May 2021. This reflects the hot housing market across much of the state, the desire for Virginians to find housing that works for the current lifestyle demands, and the adaptability and resiliency of the real estate industry to operate under challenging conditions.

Conclusion

Even with the pandemic impacting some elements of the housing market, the housing industry spurred more than $51.8 billion in total economic activity in 2020, boosting gross state product by $28.6 billion. The activity attributable to real estate also supported 325,700 jobs that paid $15.7 billion in labor income to Virginia. The activities related to real estate generated nearly $2.1 billion in tax revenue for state and local jurisdictions, which helped offset losses from pandemic-related business disruptions. The housing industry is one of the largest sectors of the state economy and has shown to be resilient to pandemic-related business and social disruptions, which is a direct testament to the professionals who support the building, renovating, buying, selling, and servicing of residential properties.

[5] Commonwealth of Virginia, Department of Accounts. Summary Report on General Fund Revenue Collections. May 2021. https://www.finance.virginia.gov/media/governorvirginiagov/secretary-of-finance/pdf/master-revenue-reports/May-2021-Revenue-Data.pdf

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