

Transactions Today; Benefits Tomorrow

By Cameron Muir, BCREA Chief Economist



The transactional economy is the subject of a significant amount of academic research. Each sale of a good or service adds to the total output of the economy. A single transaction may not appear to generate much impact but, when they're all added together, their value to the economy is substantial. Indeed, transactions are decisions that add to economic output, and their aggregate also frames future economic conditions.

A typical MLS® home sale adds more than \$15,000 in direct economic output. When you account for the additional activity generated by the sectors that supply the various goods and services to the transaction (indirect impact), the output grows to over \$25,000. That's not all.

The wages and salaries earned as a result of the sale (induced impact) brings the final tally to more than \$28,000, including \$5,000 in tax revenue. For every four MLS® sales, one full-time job is created. This year, MLS® activity will add \$2.6 billion to the provincial economy and support 23,000 jobs.

South of the border, the National Association of Home Builders estimates each multi-family housing unit built creates \$69,900 in direct, indirect and induced economic output. A

new single-detached home adds a whopping \$160,480 to the economy, and the benefits don't end there. For every 100 homes constructed and subsequently occupied, the ongoing impact is an additional \$32,000 per year.

In fact, housing, and home ownership in particular, provides many ongoing benefits. Not only does it diversify the net worth of Canadians, but homeowners also tend to have a much greater net worth overall than renters. First-time buyers with small down payments also benefit from a high return on equity in rising markets, and a home that's a principal place of residence isn't subject to capital gains tax.

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As home equity increases, whether by paying down the mortgage, through rising property values, or both, homeowners have the option of drawing on their equity to finance renovations, their

children's educations or cover emergencies. All of these financial advantages benefit the economy by reducing the need for government assistance. The nest egg of long-term ownership has very positive economic benefits to both households and the economy at large. Deciding to buy a home today reduces the chance of becoming unemployed tomorrow.

Homeowners have better health and a longer life expectancy, as well as other non-monetary benefits, such as a higher level of self-confidence and life satisfaction. The enhanced stakeholder status of homeowners induces a more active role in bettering communities and the environment, enhancing the quality of life for everyone.

Transactions around the creation of green buildings and sustainable cities provide the tangible downstream economic benefits of lowering energy costs and more efficient transportation networks. In a very real sense, the transactions made today can benefit the economy far into the future.

Cameron Muir joined BCREA's staff as Chief Economist in November 2006, after holding the position of Senior Market Analyst for the British Columbia region with Canada Mortgage and Housing Corporation. Cameron, along with Market Analyst Bryan Yu, provides BCREA with analysis and forecasting for residential MLS® markets and the provincial economy and conducts objective economic research. Cameron also acts as the Association's spokesperson on the housing market.

