Revisited Sector Paper
Real estate activities with owned or leased property (ISIC 6810)
Real estate activities on a fee or contract basis (ISIC 6820)

24th Meeting of the Voorburg Group
Oslo, Norway
John Murphy
Assistant Division Chief for Classification Activities
U.S. Census Bureau
Overview

• History

• Status and Conditions

• Classifications – industry and product

• Turnover statistics

• Price Indices
1996 – ABS Paper on experimental price indices for Real Estate Agents’ Fees (Newport)

2000 – Reports from Japan, China, United States, and UK (Madrid)

2001 – Draft principal paper for real estate services presented by ONS (Örebro)

2008 – Revisited Sector Paper – first focus on turnover (Aguascalientes)

2009 – Revised Revisited Sector Paper
Status

ISIC 6810 – Real estate activities with owned or leased property

6 of 21 (6 of 20) have price indexes for at least part (residential or nonresidential

11 of 21 (15 of 20) have turnover data for at least part

5 of 21 (4 of 20) have at least partial coverage of both turnover and prices
ISIC 6820 – Real estate activities on a fee or contract basis

7 of 21 (8 of 20) have price indexes for at least part

10 of 21 (15 of 20) have turnover data for at least part

6 of 20 (4 of 20) have at least partial coverage for both turnover and prices
Status

• In general, partial coverage is for non-residential.

• Two countries are scheduled to calculate real estate activity price indexes in the next couple of years.

• Two different countries reported plans to collect turnover data for real estate activities in the next couple of years.

• Three of four will then have both price and turnover data available.
According to Economist Magazine (March 30, 2002):
- Highest ownership rate: Ireland at 83%
- Lowest ownership rate: Germany at 43%
- Commission rates vary, basic process is the same

Different basis for commissions
- Rent based on value of lease or a percentage of monthly rent
- Ownership based on a percentage of asset value
Transfer commission rates vary throughout the world

- ranges from average of less than 1% to over 7%

- can vary based on transaction size or location

- can vary above or below certain monetary levels
Transfer Commission Rate Examples

Country averages range from 1% to 7% or more. Examples cited in International Real Estate Brokerage Fees and Implications for the US Brokerage Industry are:

- Canada 3%-6%
- Denmark 2%-4%
- Germany 3%-6%
- Ireland 1.5%-3%
- Japan 3%
- Netherlands 1.5%-2%
- Mexico 10%-15%
- UK 1%-2% typical
- USA 6%-7%

http://ideas.repec.org/a/ire/issued/v05n012002p12-39.html
Leasing Commission Rate Example

Germany:
Commission rates (in % of one month's rent, including statutory MwSt) are dependent upon the rental price and rental period of the rented property (see cause 6 of our STCs)

- up to 1 Month: 25% + MwSt = 29.75%
- up to 2 months: 40% + MwSt = 47.60%
- up to 3 months: 55% + MwSt = 65.45%
- up to 4 months: 70% + MwSt = 83.30%
- up to 5 months: 85% + MwSt = 101.15%
- up to 6 months: 100% + MwSt = 119.00%
- up to 8 months: 120% + MwSt = 142.80%
- up to 10 months: 135% + MwSt = 160.65%
- 10 months +: 150% + MwSt = 178.50%

http://hamburg.homecompany.de/index.php?sp=en&id=agb_sucher&print=1
## Classification - Industry

<table>
<thead>
<tr>
<th>ISIC 4</th>
<th>Title</th>
<th>NACE 2</th>
<th>Title</th>
<th>NAICS US</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>6810</td>
<td>Real estate activities with owned or leased property</td>
<td>68.10</td>
<td>Buying and selling of own real estate</td>
<td>531110</td>
<td>Lessors of residential buildings and dwellings</td>
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<tr>
<td>6820</td>
<td>Real estate activities on a fee or contract basis</td>
<td>68.20</td>
<td>Renting and operating of owned or leased real estate</td>
<td>531120</td>
<td>Lessors of nonresidential buildings (except miniwarehouses)</td>
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<tr>
<td></td>
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<td>68.31</td>
<td>Real estate agencies</td>
<td>531130</td>
<td>Lessors of miniwarehouses and self storage units</td>
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<td>68.32</td>
<td>Management of real estate on a fee or contract basis</td>
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<td>Lessors of other real estate property</td>
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<td>531210</td>
<td>Offices of real estate agents and brokers</td>
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<td>531311</td>
<td>Residential property managers</td>
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<td></td>
<td>531312</td>
<td>Nonresidential property managers</td>
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<tr>
<td></td>
<td></td>
<td></td>
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<td>531320</td>
<td>Offices of real estate appraisers</td>
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<td>531390</td>
<td>Other activities related to real estate</td>
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<td>CPC 2.0</td>
<td>Description</td>
<td>CPA 2008</td>
<td>Description</td>
<td>NAPCS</td>
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<tr>
<td>7211</td>
<td>Rental or leasing services involving own or leased residential property</td>
<td>68.20.11</td>
<td>Rental and operating services of owned or leased residential real estate</td>
<td>1.1</td>
<td>Rental of land</td>
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<tr>
<td>7212</td>
<td>Rental or leasing services involving own or leased nonresidential property</td>
<td>68.20.12</td>
<td>Rental and operating services of owned or leased non-residential real estate</td>
<td>1.2</td>
<td>Rental of residential space in buildings or other facilities for principal residence</td>
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<td>7221</td>
<td>Residential property management services on a fee or contract basis except of time-share ownership properties</td>
<td>68.31.11</td>
<td>Real estate agency services, residential buildings</td>
<td>1.3</td>
<td>Rental of non-residential space in buildings or other facilities</td>
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<td>Non-residential property management services on a fee or contract basis</td>
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<td>Real estate agency services, time-share properties</td>
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<td>Real estate brokerage services</td>
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<td>Real Estate agency services for vacant residential land</td>
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<td>Residential building sales on a fee or contract basis except of time-share properties</td>
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<td>Real estate agency services for non-residential buildings</td>
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<td>Real estate consulting services</td>
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<td>Non-residential building sales on a fee or contract basis</td>
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<td>4.1</td>
<td>Residential building property management services</td>
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<td>Sale of time-share properties on a fee or contract basis</td>
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<td>4.2</td>
<td>Non-residential building property management services</td>
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<td>Time-share property management services</td>
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<td>5.2</td>
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<td>6.0</td>
<td>Real estate listing services</td>
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</tbody>
</table>
Turnover Statistics

• Primary Turnover Variables
  - Rents received for use of space
  - Set fees for services performed
  - Commission based fees for services performed

• Separate tabulation of variables recommended
  - residential and non-residential rents
  - residential and non-residential set and commission based fees
Additional Turnover Considerations

• If collecting total income or all sources of receipts, separately identify:
  - Capital gains/losses
  - Interest earned from financing sale of real estate

• Additional variables that might be appropriately collected with a turnover survey:
  - Average commission rate (agency services)
  - Number of sales (agency services)
  - Gross value of real estate sold (agency services)

• Align definitions to other sources of data in the economy

U S C E N S U S B U R E A U
### U.S. Turnover – 2007 Economic Census*

<table>
<thead>
<tr>
<th>Establishment Type</th>
<th>Establishments</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Lessors</td>
<td>62,500</td>
<td>$66.7 billion</td>
</tr>
<tr>
<td>Non-residential Lessors</td>
<td>34,200</td>
<td>$99.4 billion</td>
</tr>
<tr>
<td>Real Estate Agents</td>
<td>108,600</td>
<td>$88.0 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>205,300</strong></td>
<td><strong>$254.1 billion</strong></td>
</tr>
</tbody>
</table>

*Rounded at various levels – Preliminary Industry Statistics 9/1/09

(http://factfinder.census.gov/servlet/IBQTable?_bm=y&-geo_id=&-ds_name=EC0753I1&-_lang=en)
U.S. Turnover – Observations

- Separate product data collected in each category for residential and non-residential
- Separate data for net capital gains, interest income, concession receipts, construction receipts, investment income, and other revenue
- In general, all industries produce all products to a certain extent – cross industry collection of common products required
Price Indices

• Rents

• Four major pricing mechanisms for services
  - Commission for sales
  - Commissions for rentals
  - Set fees for services
  - Percentage fees for services performed

• Transaction types (pricing mechanisms) for similar services vary within industries and even within survey units
Price Indices (continued)

- Goal of index
  - deflator for output
  - measure of prices received in the market
  - national accounts needs may depend on availability of other source data for transactions, gross value of sales
  - residential and non-residential separately estimated
Commission for Sales/Leases

Price determining variables

- Commission rate
- Value of the asset or lease being sold

• Lease commission generally a percentage of the first term total lease payments or # of months rent

• Mix of percentage fees and model pricing (reported commission rate and estimated current value of real estate sold in base period – constant quality asset)

• Representative commission rate, average commission rate, or actual commission rate?

• Respondent estimate of value or proxy index of value?
Rents Received – Pricing Mechanisms

- Price per square foot, meter, or other area measure
- Price based on minimum plus percentage of sales
- Features or services included
  - Gross lease – no additional charges for maintenance, repair, taxes, insurance, etc.
  - Net least – tenant responsible for some or proportional operating expenses such as taxes and insurance
  - Triple net lease – tenant pays all operating expenses and maintenance related to the property.
Rents Received – Pricing Methods

- Net transactions – gross leases
- Mix of percentage fees – fixed rent plus percentage of sales (estimated or actual)
- Other Alternatives – Finland developed hedonic methods to estimate rents for offices and shops.

Set Fee for Services

- Typical Examples of Fee for Service Products
  - Appraisals
  - Property Management (although often a percentage of the rental amount or building value)
  - Listing Services
  - Consulting Services, market analyses
Pricing Mechanisms

- Pricing mechanisms can vary by transaction
- Sale or rental of real estate could be based on commission or fixed fee, commission rates are negotiable, etc.
- Proper pricing method is based on the pricing mechanism for each price quote.
Questions?

John B. Murphy
Assistant Division Chief for Classification Activities, U.S. Bureau of the Census
John.Burns.Murphy@census.gov
(301) 763-5172