

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



History

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



Status

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.



Conditions - Rent vs. Own

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



Conditions - Commission Rates

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 months 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

ISIC 4	Title	NACE 2	Title	NAICS US	Title
6810	Real estate activities with owned or leased property	68.10	Buying and selling of own real estate	531110	Lessors of residential buildings and dwellings
6820	Real estate activities on a fee or contract basis	68.20	Renting and operating of owned or leased real estate	531120	Lessors of nonresidential buildings (except miniwarehouses)
		68.31	Real estate agencies	531130	Lessors of miniwarehouses and self storage units
		68.32	Management of real estate on a fee or contract basis	531190	Lessors of other real estate property
				531210	Offices of real estate agents and brokers
				531311	Residential property managers
				531312	Nonresidential property managers
				531320	Offices of real estate appraisers
				531390	Other activities related to real estate



Classification - Products

CPC 2.0	Description	CPA 2008	Description	NAPCS	Description
72111	Rental or leasing services involving own or leased residential property	68.20.11	Rental and operating services of owned or leased residential real estate	1.1	Rental of land
72112	Rental or leasing services involving own or leased nonresidential property	68.20.12	Rental and operating services of owned or leased non-residential real estate	1.2	Rental of residential space in buildings or other facilities for principal residence
72211	Residential property management services on a fee or contract basis except of time-share ownership properties	68.31.11	Real estate agency services, residential buildings	1.3	Rental of non-residential space in buildings or other facilities
72212	Non-residential property management services on a fee or contract basis	68.31.12	Real estate agency services, time-share properties	2.1	Real estate brokerage services
72213	Time-share property management services on a fee or contract basis	68.31.13	Real Estate agency services for vacant residential land	2.2	Real estate agency services
72221	Residential building sales on a fee or contract basis except of time-share properties	68.31.14	Real estate agency services for non-residential buildings	3.0	Real estate consulting services
72222	Non-residential building sales on a fee or contract basis	68.31.15	Real estate agency services for vacant non-residential land	4.1	Residential building property management services
72223	Sale of time-share properties on a fee or contract basis	68.32.11	Residential property management services	4.2	Non-residential building property management services
72230	Land sales on a fee or contract basis	68.32.12	Time-share property management services	4.3	Land property management services
72240	Real estate appraisal services on a fee or contract basis	68.32.13	Non-residential property management services	5.1	Urban real estate appraisal services
				5.2	Rural real estate appraisal services
				6.0	Real estate listing services



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. Turnover – 2007 Economic Census*

	Establishments	Turnover
Residential Lessors	62,500	\$ 66.7 billion
Non-residential Lessors	34,200	\$ 99.4 billion
Real Estate Agents	108,600	\$ 88.0 billion
Total	205,300	\$254.1 billion

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

(http://factfinder.census.gov/servlet/IBQTable?_bm=y&-geo_id=&-ds_name=EC075311&-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

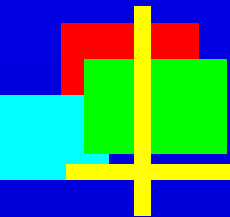
Price determining variables

- 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 lease – 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.

http://tilastokeskus.fi/org/tut/dthemes/papers/survey_on_the_rents_of_office-business_premises.pdf

Set Fee for Services

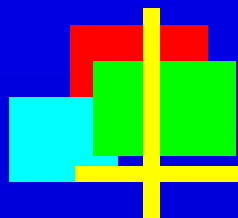


- Typical Examples of Fee for Service Products
 - Appraisals
 - Property Management (although often a percentage of the rental amount or building value)
 - Listing Services
 - Consulting Services, market analyses



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