

Addendum: An update to the “Economic contribution of the like-kind exchange rules to the US economy in 2021

This Addendum updates the economic contribution analysis contained in the May 2021 EY report, “Economic contribution of the like kind exchange rules to the US economy in 2021.” The May 2021 report assumed that the economic footprint of the like-kind exchange rules would be roughly comparable to its 2019 level. This assumption was made because many forecasts for the overall level of economic activity had it returning to its pre-pandemic levels in 2021.

The US economy has, however, rebounded more quickly and with greater strength than originally thought. The first three quarters of 2021 are now close to the level of economic activity forecast for 2021 as anticipated prior to (and without expectation of) the pandemic. Moreover, in part, due to the transition of many qualified real property assets to new or modified uses to meet post-pandemic business models and tenant needs, the volume of like-kind exchange activity may have accelerated beyond what was assumed for the May 2021 report.

To reflect the increase in like-kind exchange activity between 2019 and 2021, this analysis surveyed a cross-section of qualified intermediaries facilitating like-kind exchanges for taxpayers in different market segments and geographies across the United States. Nine qualified intermediaries, representing large national companies, as well as small-to-medium-sized regional companies, were surveyed. The survey collected data on the number of transactions and contract price of relinquished and acquired (replacement) properties in like-kind exchange transactions for the first nine months of 2019 and 2021.

The percentage change in the dollar volume of relinquished and replacement properties from 2019 to 2021 is then used to reflect the increase in like-kind exchange activity. The analysis found that this dollar volume increased by 24.4%. The increase in the use of the like-kind exchange rules is also reflected in the significant increase in like-kind exchange transactions – the number of like-kind exchange transactions among the qualified intermediaries surveyed increased by 58% between 2019 and 2021.

Key findings

Economic activity of the businesses (including business entities, pass-through entities, sole proprietorships, and individual investors) that make use of like kind-exchange rules

- ▶ **Investment at businesses that make use of like-kind exchange rules.** Like-kind exchange rules support \$5.5 billion investment in 2021 at businesses that make use of the like-kind exchange rules.
- ▶ **Employment and wage contribution.** Overall, in 2021, at the businesses that make use of the like-kind exchange rules, 325,000 workers earning \$14.1 billion in wages and benefits would be supported directly by the like-kind exchange rules.
- ▶ **Share of US economic activity.** Like-kind exchange rules would directly generate \$28.6 billion in value added in the United States in 2021 at businesses that make use of the like-kind exchange rules. Value added measures a sector’s or industry’s contribution to the production of final goods and services produced in the United States or US gross domestic product (GDP).

Economic activity related to the businesses that make use of the like-kind exchange rules

- ▶ **Suppliers to the businesses that make use of the like-kind exchange rules and related consumer spending.** Suppliers to the businesses that make use of the like-kind exchange rules would employ an additional 385,000 workers throughout the US economy in 2021 earning \$21.2 billion in wages and benefits, which would contribute to generating \$42.2 billion of US value added in 2021.

Total economic activity of, and related to, the businesses that make use of the like-kind exchange rules

In total, like-kind exchange rules would support \$5.5 billion of investment at businesses that make use of the like-kind exchange rules, which together with their US suppliers, and the related US consumer spending, would employ an estimated 710,000 workers earning \$35.3 billion in wages and benefits and would contribute to generating \$70.8 billion in US value added in 2021.

Table 1. Economic activity supported by the like-kind investment at businesses that make use of the like-kind exchange rules in 2021

	Businesses that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Employment	325,000	385,000	710,000
Labor Income	\$14.1 billion	\$21.2 billion	\$35.3 billion
Value Added	\$28.6 billion	\$42.2 billion	\$70.8 billion

Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Labor income is a component of value added. Figures are rounded.

Source: EY analysis.

Figure 1. Economic activity supported by the like-kind exchange rules in 2021

710k Total jobs supported by like-kind exchange rules



\$35.3b Total labor income supported by like-kind exchange rules



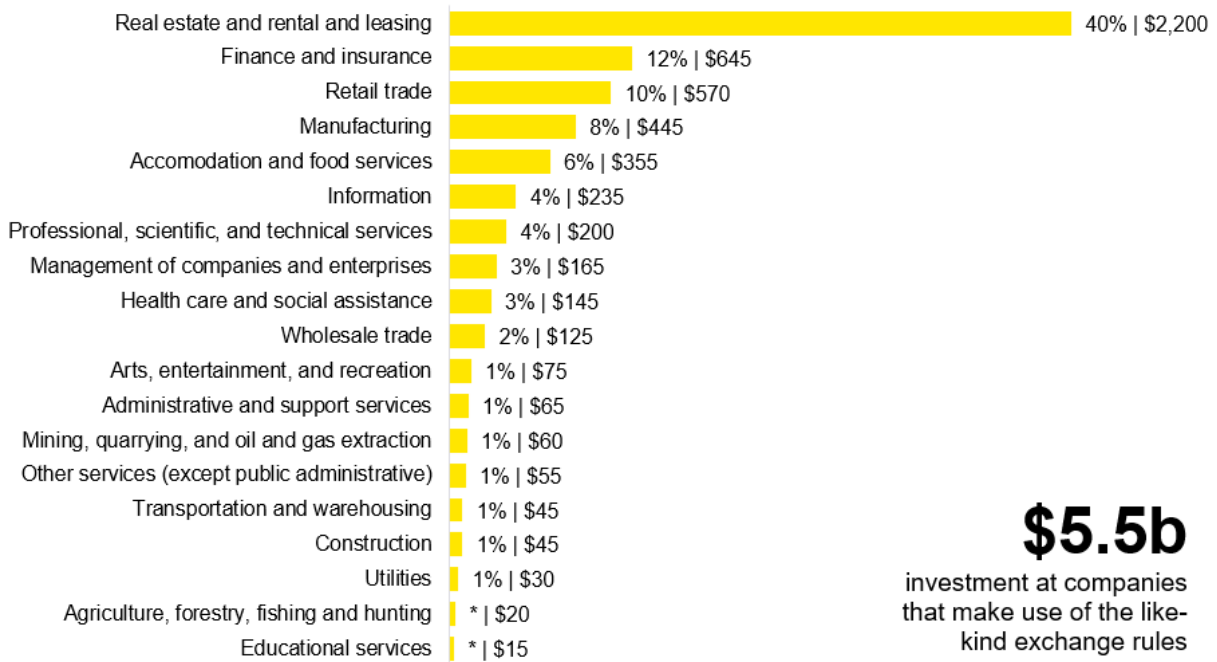
\$70.8b Total value added supported by like-kind exchange rules



Direct investment supported by the like-kind exchange rules, by industry

As seen in Figure 2, the like-kind exchange rules directly support \$5.5 billion of investment annually at businesses that use the like-kind exchange rules (i.e., investment is higher by \$5.5b because of the like-kind exchange rules without accounting for how tax revenue from the like-kind exchange rules is used). The \$5.5 billion estimate is for investment that is directly supported by those businesses that use the like-kind exchange rules (i.e., it does not include indirect supplier and related consumer spending).

Figure 2. Annual direct investment supported by the like-kind exchange rules, by industry



Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Figures are rounded. ** indicates percentage share <0.5%. Source: EY analysis.

Employment supported by the like-kind exchange rules, by industry

Table 2 displays the total employment supported by the like-kind exchange rules by industry directly and through suppliers and related consumer spending. In total, the like-kind exchange rules support 710,000 employees across all industries.

Table 2. Employment supported by the like-kind exchange rules

NAICS description	Businesses that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Leisure and hospitality	105,300	44,900	150,200
Trade, transportation, and utilities	91,100	66,000	157,100
Financial activities	35,700	55,000	90,700
Education and health services	31,400	47,400	78,800
Professional and business services	30,500	81,100	111,600
Manufacturing	12,600	21,800	34,400
Other Services	10,700	43,600	54,300
Construction	4,900	6,100	11,000
Information	1,500	7,000	8,500
Natural resources and mining	1,100	12,100	13,200
Total	325,000	385,000	710,000

Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Figures are rounded.

Source: EY analysis.

Sensitivity Analysis

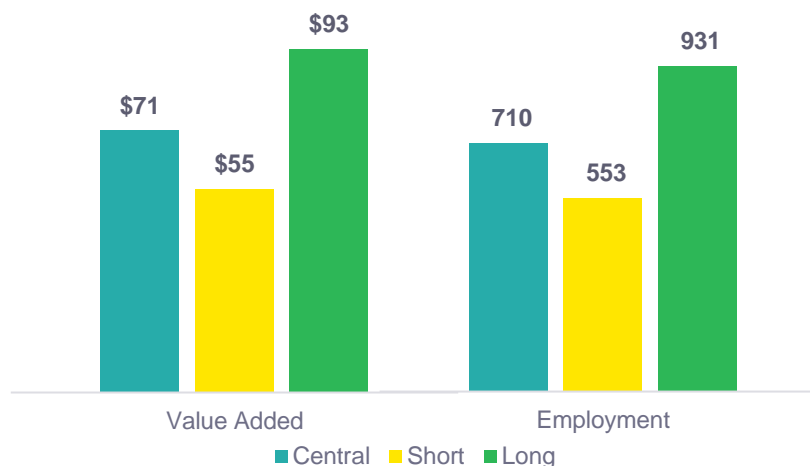
Two key assumptions underlying the estimates are the holding period of real property exchanged for like-kind real property and the share of real property that makes use of the like-kind exchange rules.

Holding period

For the above “central” case estimates, a holding period of approximately 8.5 years was used. An EY survey of businesses that make use of the like-kind exchange rules indicates that actual holding periods can vary. Figure 3 displays estimates using a shorter holding period “short” (i.e., approximately 7 years) and longer holding period “long” (i.e., approximately 12 years).

The estimates using the “shorter” and “longer” holding periods suggest that the like-kind exchange rules support \$4.2 billion and \$7.3 billion of investment annually at businesses that make use of like-kind exchange rules, respectively. This translates to 553,000 and 931,000 supported jobs assuming the shorter and longer holding periods, respectively, including both those at businesses making use of the like-kind exchange rules, as well as those supported at suppliers and by related consumer spending. This activity further translates into value added of \$55 billion using the shorter holding period, and value added of \$93 billion assuming the longer holding period.

Figure 3. Sensitivity analysis: Estimated economic contribution by businesses that make use of like-kind exchange rules
Dollars in billions, Employment in thousands



Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Labor income is a component of value added. Figures are rounded.
Source: EY analysis.

Share of real property making use of like-kind exchanges

Ling and Petrova (2020) used data from CoStar on the dollar volume of real estate transactions that make use of like-kind exchange rules. These data indicate that the total dollar volume of real estate transactions that make use of like-kind exchange rules averaged 8% of total commercial real estate transactions over the past three years. This analysis estimates an economy-wide share of 5% after mapping the CoStar-based shares into the US Department of Commerce’s capital stock data by industry and asset type. Ling and Petrova (2020) indicate that the share, based on the number of transactions, may be higher than indicated by the CoStar data when

based on several alternative data sources. In recognition of this possibility, Table 4 below displays alternative estimates assuming a 10% rather than 8% share for commercial real estate transactions.

Table 4. Sensitivity analysis: Economic activity supported by the like-kind investment at businesses that make use of the like-kind exchange rules assuming 10% of commercial real estate transactions use like-kind exchanges (by dollar volume)

	Businesses that make use of the like-kind exchange rules	Suppliers and related consumer spending	Total
Employment	406,000	481,000	887,000
Labor Income	\$17.6 billion	\$26.5 billion	\$44.1 billion
Value Added	\$35.8 billion	\$52.7 billion	\$88.5 billion

Note: All estimates are for economic activity in the United States and are relative to the US economy in 2021. Labor income is a component of value added. Figures are rounded.

Source: EY analysis.