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**Testimony: John Eaton, GAD, Idaho Association of REALTORS®**

To the Co-Chairs, and members of the Committee, thank you for extending the invitation to the Idaho Association of REALTORS® to come and present our information to you. I hope that you will find this statistical and anecdotal information both interesting and informative.

I am going to talk briefly about the state of the Idaho real estate market, and then I will attempt to answer the questions posed to us by legislative staff.

I have supplied you with data detailing the performance of Idaho's local real estate markets, as well as the statewide picture, and I will be referring to these numbers throughout my presentation.

The real estate and construction industry is one of the largest sectors of the Idaho economy, generating tens of millions of dollars for the state through both sales and income taxes. Current estimates put the industry at about 18 percent of the state economy. At the local level, active construction and real estate markets continue to generate millions for local governments in new property tax revenue as well.

In 2006 we experienced a mild correction in the Idaho real estate market, with sales and dollar volume numbers coming in slightly under the record year of 2005, yet still well ahead of where we were just a few years ago. Those of

you who were here last year might recall this is in line with the predictions we made at that time.

I would like to highlight the 2006 total single-family residential sales numbers and total dollar volume. I have chosen to only report this information for two reasons. First, commercial sales are rarely reported within our existing listing databases. Second, most of the members of my Association work predominantly in residential sales. However, commercial construction is a growing part of our real estate economy – and I know Mr. Iliff will have some good insights for you into that sector.

As you can see, 2006 sales were down nearly 20% from 2005, with total dollar volume down just 7%. This difference reflects an increase in the average price of a home of 15.5% during the same period.

The major change to the Idaho marketplace seems to be a slowdown in investor buying – once thought to be as high as 25 percent of the market. As uncertainty in the Idaho market has increased, investors have moved their money to other markets around the country.

With the cooling of the investor market, many builders were caught with an excess of stock on market, which caused a slowdown in building permits in some parts of the state.

Unfortunately, this has led many in the media to speculate that our housing market is in a “downward spiral”, or that there is a bubble that is now bursting. While this may be good copy, the numbers simply don’t support their unfounded rhetoric.

The prior three years saw unprecedented levels of growth in real estate sales and values statewide. From 2002 to 2005 the total dollar volume of tracked sales in Idaho went from just under \$3 Billion to just over \$7 Billion – with a corresponding increase in number of sales from just over 20,000 to more than 33,500.

The story in Idaho is the same as elsewhere in the country. Although we have not experienced decreases in average sales prices, we have experienced a cooling of the market.

The facts are that successive record years are simply not sustainable, and double digit price gains are not healthy or sustainable.

But, the roof is not caving in – as some would have you believe. The market is not going bust, nor is there a bubble in Idaho – or nationally. What we are seeing is the boom winding down to an expansion. Inventory levels have risen, but they are being drawn down to more historic norms. Price appreciation is slowing to a more sustainable and historic rate. Sales took a dip in 2006, but we predict they will rise at a more measured pace in the future. A good example of what we expect to see for the later part of this decade is what we saw toward the end of the last decade. These slides show total home sales from 1996-2000, and then from 2000-2006. Note the trend lines. The trend line from 1996-2000 represents the kind of stable, sustainable growth we expect to see in a solid market.

Idaho's net in-migration, low unemployment, and strong commercial construction markets are combining with

other forces such as healthy consumer spending and an increase in business spending, to sustain our healthy economy, and should move residential sales up in coming years. We are already seeing the market catch up in many areas, with absorption rates leveling off to more historic norms.

This trend is happening nationally as well. The National Association of REALTORS® is reporting that total home sales rose for the third straight month in November, and the national Housing Affordability Index is on the rise for the fourth straight month. The Housing Affordability Index compares income to housing prices, and current statistics show that the average American family makes 110% of the median income needed to afford the median price home..

David Lereah, NAR's chief economist, says modest gains are expected for home sales nationally. Last month he was quoted as saying: "As the housing market recovers from its correction, existing-home sales should be rising gradually during 2007 – it looks like we may have reached the low point for the current cycle in September," he said. "We've entered a more sustainable period of home sales now, and we expect greater support for prices over time as inventory levels are eventually drawn down."

In addition, the National Association of REALTORS® last year listed Idaho as a "second tier" marketplace, meaning large development firms were using profits from "first tier" markets to land bank in Idaho. Many of these firms are publicly traded, and do significant amounts of research before developing in a new market. We are now starting to see these firms submit applications in Idaho for

planned developments of significant size – a key indicator in their belief that Idaho’s real estate market will continue to remain healthy. Mr. Taunton has a great deal of experience in these markets, and I’m sure he will provide more detail for you in the next presentation.

## QUESTIONS

Now I will attempt to answer some of the questions that were highlighted by the memorandum I received from Legislative Services.

**1. What are the current states of Idaho’s real estate and construction industries? How does this compare to past levels?** In short, the state of the Idaho real estate economy is positive. With continued net in-migration, record low unemployment and a sound economy, Idaho is poised to maintain a healthy market for the foreseeable future. The numbers and projections I have provided you bare this out. The real estate sector is a good barometer of the overall strength of the underlying confidence of the people in the economy. People don’t buy these large ticket items (perhaps the largest asset they will every buy) unless they think they are going to have a job.

**2. How many are employed in these industries? What is the total payroll?** There are nearly 10,000 active real estate licensees in the REALTOR® organization in Idaho. More than double the number we had just a few years ago. Of that number we have approximately 1,100 brokers of offices that vary from one person to over 500 in size. The latest survey done by our National Association of REALTORS® in 2003 indicates that the median gross personal income of a salesperson was to \$39,300. The median gross personal income of a broker during the same

period was \$65,300. These income levels are not adjusted for 2007, but do provide a snapshot of the industry. They do not include money made from real estate investments and other sources of income.

While we don't represent a great deal of those directly involved in the construction industry the National Association of Home Builders indicates that for every 1,000 homes constructed 2,448 jobs are created. According to NAHB these same 1,000 homes generate \$79.4 million in wages and \$42.5 million in federal, state and local taxes. Building 100 homes typically generates \$11.6 million in local income, \$1.4 million in taxes and other revenue for local governments and 250 jobs. Building 100 multi-family homes typically generates \$5.3 million in local income, \$630,000 in taxes and other revenue for local governments and 112 jobs.

Annual ongoing impacts of 100 single family homes generate \$2.8 million in local income, \$498,000 in taxes and other revenue for local governments and 65 local jobs. Annual ongoing impacts of 100 multi-family homes generate \$2.2 million in local income, \$384,000 in taxes and other revenues for local governments and 47 jobs. Again, these are annual ongoing impacts of the construction industry.

**3. How are these industries likely to perform over the next 18 months?** It is difficult to predict the economy of the real estate industry that far away let alone six months from now. I think it is safe to say that as long as interest rates remain favorable, technology and other manufacturing gain strength, and migration patterns favor the west and northwest, Idaho's real estate economy should remain strong well into the foreseeable future.

**4. Have low interest rates stimulated the construction and real estate industries?** Low interest rates have helped the industry weather the downturn very well. Although the industry generally considers anything below 8 percent to be “cheap money”, interest rates have remained below 7 percent far longer than most industry analysts predicted. Recently, rates have been driven back down around 6 percent. The National Association of REALTORS® reports the continuing low rates despite a weakening dollar, are primarily due to reinvestment in the U.S. economy by foreign companies. NAR Senior Forecast Analyst Lawrence Yun wrote in his December 2004 report, “Were it not for the purchase of U.S. Financial assets, long term interest rates could be six percentage points higher. That is, rather than a 6 percent mortgage rate, homebuyers would be facing a whopping 12 percent rate.” Yun, reiterated this point in an article published just last month.

Another factor to consider that has had a significant impact is the reduction of capital gains tax on personal residences. The provisions in law that allowed up to \$500,000 of deduction per sale with no lifetime limit was estimated to have unlocked over \$2 Trillion in wealth that people have invested into the economy. Idaho benefits greatly from the net in-migration of people that have sold their homes in higher priced areas and moved to Idaho bringing their wealth with them.

**5. There was talk of a real estate “bubble” nationally. Does Idaho have a real estate “bubble” and, if so, what would happen if it popped?** As I have said before, the concept of a real estate “bubble” in Idaho is simply nonsense. A number of factors have lead folks from outside Idaho to want to live here, and that demand has pushed prices up. The fact is that our housing prices were probably

undervalued – which made us an attractive market. Combined with a great quality of life, our undervalued housing lead to a boom in sales. Real estate price declines are very rare. Not since the great depression have we seen sustained housing price decreases. We are moving from a boom to an expansion, but we will continue to see housing price gains in our market.

**6. What impact does the real estate industry have on state General Fund revenues?** According to the statistics provided by Legislative Services, the real estate industry represented 12.1% of the Idaho economy in 2005, while the construction sector represented 6 percent. Taken together, real estate and construction represent more than 18% of Idaho's economy. As a sector we are larger than any other area of the Idaho economy – including agriculture, manufacturing, health care and even government. Most of the surplus the state general fund has experienced over the past few years has been directly attributable to our industry. This means, given the projected slower growth in our industry over the next few years, general fund surplus revenue will likely be smaller in the future unless another sector of the economy picks up the weight the real estate industry has been carrying.

**7. What policies should Idaho follow to promote economic growth and higher wages?** With changes in our marketplace, it follows that changes in Idaho's housing policies can have dramatic effects on economic development in the state. The Idaho Association of REALTORS® works with the legislature to promote housing policies that will strengthen both the state and the industry.

It is clear anti-growth policies simply do not work when trying to expand economic development. The IAR



supports responsible development that is good for the state and the consumer. As we search for solutions to housing issues, government needs to work with the markets, and not against them, in order to succeed.

It is also clear the actions of the Idaho Legislature can have a significant impact on the real estate industry – and on the largest segment of Idaho’s economy.

A prime example is the inclusion of the Housing Price Index (HPI) in the Home Owner’s Exemption last session. It is no coincidence that the investor market dried up when the legislature passed a permanent, ongoing, unpredictable, tax shift to investment housing. As any economist will tell you, markets hate uncertainty, and the inclusion of the HPI created tremendous uncertainty in the investment market. Certainly Idaho was an attractive place to invest for a number of reasons, but even though the boom has passed, and we have a more balanced market, Idaho is still a great investment opportunity – but our members tell us they are having a harder time getting folks to bring their money to Idaho because of the uncertainty of our tax code. One way the legislature could promote economic development in our sector would be to cap the HOE at a given amount, remove the HPI component, and return responsibility for increases to the germane committees.

A second area the Legislature can be of help is in continued capital gains tax reductions. A couple of years ago we shortened the holding period, it may be time to look at increasing the exemption percentage. Every time you reduce the capital gains tax you unlock more wealth that can driven back into our economy.

Idaho’s housing economy stands at a crossroads. We have experienced a mild correction in our market, yet all of

the key economic indicators point to a growing, sustainable market in the years ahead.

Here the Legislature can play a role as well. Increased activity in our markets by the government – whether that be school impact fees, transfer taxes, a sales tax on services, or broad local option taxes – will have a significant negative effect on the largest single segment of our economy. The market in Idaho enjoys a stable tax structure, any changes to that structure could have significant negative impacts on our recovery, and on future growth in our sector.

The Idaho Association of REALTORS® looks forward in working with the Legislature to craft policies that enhance and protect the real estate industry and the free transaction of private property in Idaho. I would be happy to answer questions.

**Idaho Association of REALTORS®**  
**Presentation to the 2007 Joint Legislative**  
**Economic Outlook and Revenue Assessment**  
**Committee**  
 prepared by  
**John Eaton, Government Affairs Director**

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- The Real Estate and Construction Industries remain one of the largest sectors of the Idaho economy, generating tens of millions of dollars in tax revenue for the state through both sales and income taxes.
- Active construction and real estate markets at the local level generate millions for local governments in new property tax revenues.
- In 2006 we experienced a mild correction in the Idaho Real Estate market.

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**Tracked Single Family Residential Units Sold Statewide**

Year	Units Sold
2000	12,000
2001	13,000
2002	14,000
2003	15,000
2004	16,000
2005	17,000
2006	13,500

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**Total Dollar Volume**

Year	Total Dollar Volume
2000	\$1,000,000,000
2001	\$1,100,000,000
2002	\$1,200,000,000
2003	\$1,300,000,000
2004	\$1,400,000,000
2005	\$1,500,000,000
2006	\$1,350,000,000

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**2006 SALES**

- More than 26,000 tracked sales of single family residences is still down 20 percent from record year of 2005.
- More than \$6.5 Billion in sales volume is down 7 percent.
- Price appreciation was 15.5 percent.

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**CHANGING IDAHO MARKET**

- Investor market has dried up due to uncertainty in market.
- Represents up to 25 percent of the market.
- Excess of stock caused slowdown in permit volume.
- There is no bubble in the Idaho real estate market.



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**WINDING DOWN TO AN EXPANSION**

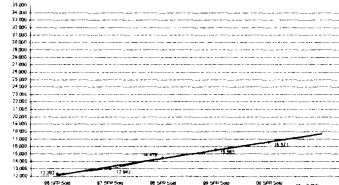
- 2002-2005 saw unprecedented growth in the market.
- Total dollar volume went from \$3 Billion to \$7 Billion.
- Sales increased from 20,000 to 33,500.
- Successive record years are not sustainable.
- We are experiencing a boom winding down to an expansion.
- Sales will rise at a more measured pace for the rest of the decade.



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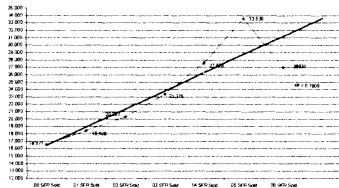
Tracked Single Family Residential Units Sold Statewide



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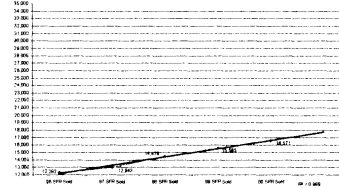
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**WINDING DOWN TO AN EXPANSION**

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**STRONG ECONOMIC INDICATORS**

- Net in-migration
- Low unemployment
- Strong commercial markets
- Healthy consumer spending
- Increased business spending



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**NATIONAL MARKET IMPROVING**

- NAR reports total home sales rose for the third straight month.
- National Housing Affordability Index rose for the fourth straight month.
- Current HAI is 110.
- Average American has 110% of the median income needed to afford the median priced home.



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**ECONOMIC OUTLOOK**

" As the housing market recovers from it's correction, existing home sales should be rising gradually during 2007 – it looks like we may have reached the low point for the current cycle in September. We've entered a more sustainable period of home sales now, and we expect greater support for prices over time as inventory levels are eventually drawn down."

- David Lereah



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**ECONOMIC OUTLOOK**

- Idaho is a second tier marketplace.
- We are seeing an influx of large development companies.
- Strong outside interest in Idaho's residential construction industry is a good sign for the future of our economy.



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**Question 1: What is the current state of Idaho's real estate and construction industries? How does this compare to past levels?**

- The current state of the industry is positive.
- Idaho is poised to maintain a healthy market for the foreseeable future.



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**Question 2: How many are employed in these industries? What is the total payroll?**

- There are nearly 10,000 active real estate licensees in the REALTOR® organization in Idaho. 1,100 Brokers.
- 2003 NAR Survey indicates median gross income of a salesperson is \$39,300. Brokers are \$65,300.
- Building 100 homes generates \$11.6 million in local income, \$1.4 million in taxes, and 250 jobs the first year. Ongoing annual impact is \$2.8 Million in income, \$498,000 in taxes and 65 jobs.
- Building 100 multi family homes generates \$5.3 million in local income, \$630,000 in taxes, and 112 jobs. Ongoing annual impact is \$2.2 million in income, \$384,000 in taxes, and 47 jobs.



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**Question 3: How are these industries likely to perform over the next 18 months?**

- Difficult to predict that far out.
- As long as current patterns stay the same, Idaho's real estate economy should remain strong into the foreseeable future.



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**Question 4: How have low interest rates stimulated the construction and real estate industries?**

- Low interest rates have helped the industry weather the downturn very well.
- Rates have remained below 7 percent longer than predicted.
- Recently rates have moved back closer to 6 percent.
- "Were it not for the purchase of U.S. financial assets, long term interest rates could be six percentage points higher. That is, rather than a 6% mortgage rate, homebuyers would be facing a whopping 12% rate."
- NAR Senior Forecast Analyst Lawrence Yun
- Capitol gains tax cuts and net in-migration have also contributed significantly to the continues success of the industry.



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**Question 5: There was talk of a real estate “bubble” nationally. Does Idaho have a real estate “bubble” and, if so, what would happen if it popped?**

- There is no real estate “bubble” nationally, or in Idaho.
- Demand pushed undervalued prices up.
- We have not seen sustained price declines since the great depression.
- Moving from a boom to an expansion.



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**Question 6: What kind of impact do the construction and real estate industries have on state General Fund Revenue?**

- Real Estate is 12.1 percent of the Idaho economy.
- Construction represents 6 percent.
- Taken together at 18 percent it is the largest sector of Idaho’s economy – bigger than agriculture, manufacturing, health care, and government.
- Directly responsible for most of the surplus revenue for the past few years.



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**Question 7: What policies should Idaho follow to promote economic growth and higher wages?**

- Changes in policy effect our markets.
- Anti-growth policies do not work and will have a negative effect on our economy.
- IAR Supports responsible development that is good for the state and the consumer.
- Government needs to work with the markets, and not against them in order to succeed.



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**THE ROLE OF THE LEGISLATURE**

- Actions of the Legislature have a significant impact on our industry.
- Remove the inflator in the Homeowner’s Exemption.
- Continued reduction in capital gains tax.
- Increased taxes and fees on a recovering sector of the economy would have a negative impact.

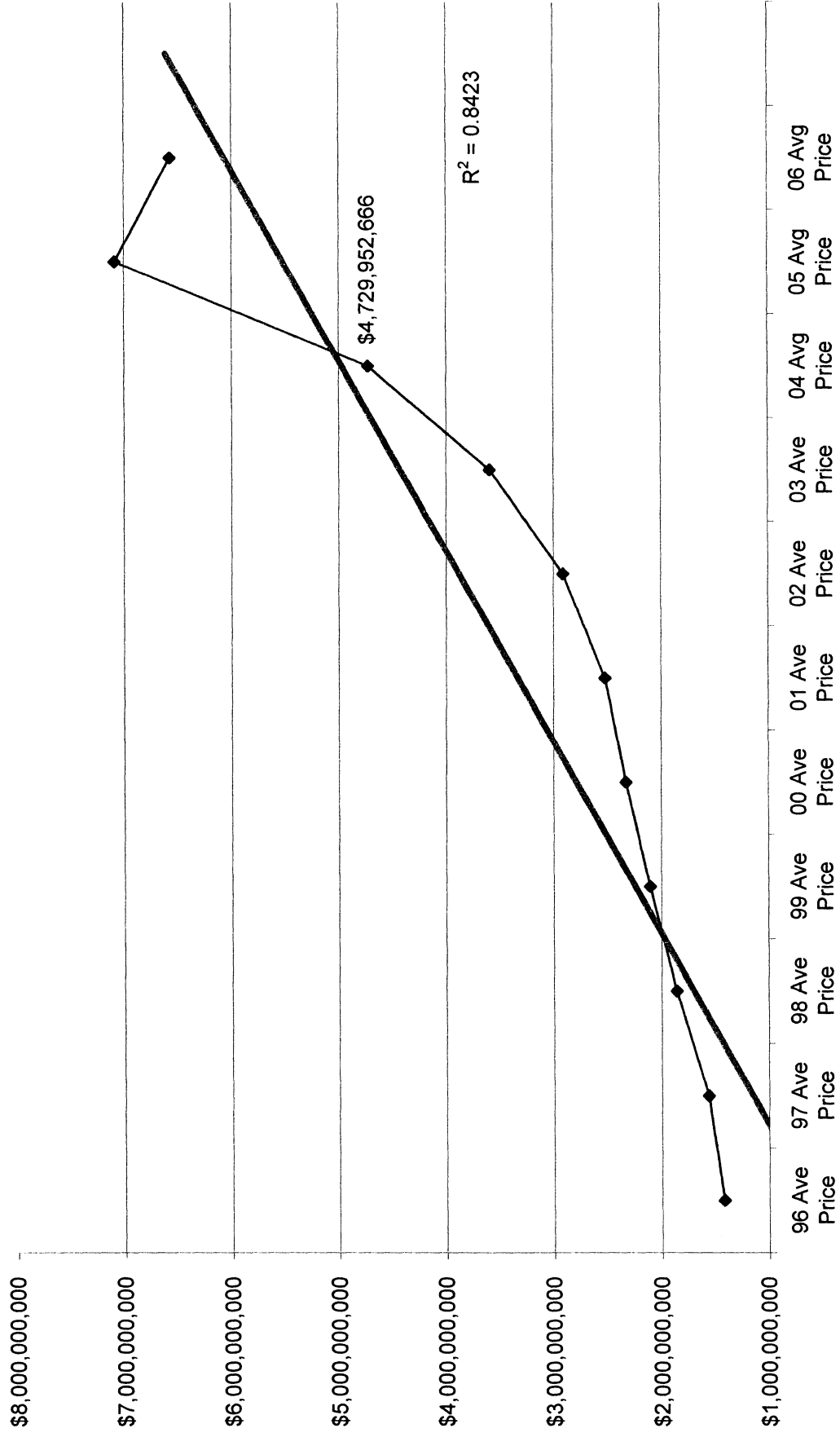


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The Idaho Association of REALTORS® will continue to work to craft policies that enhance and protect the real estate industry and the free transaction of real property.

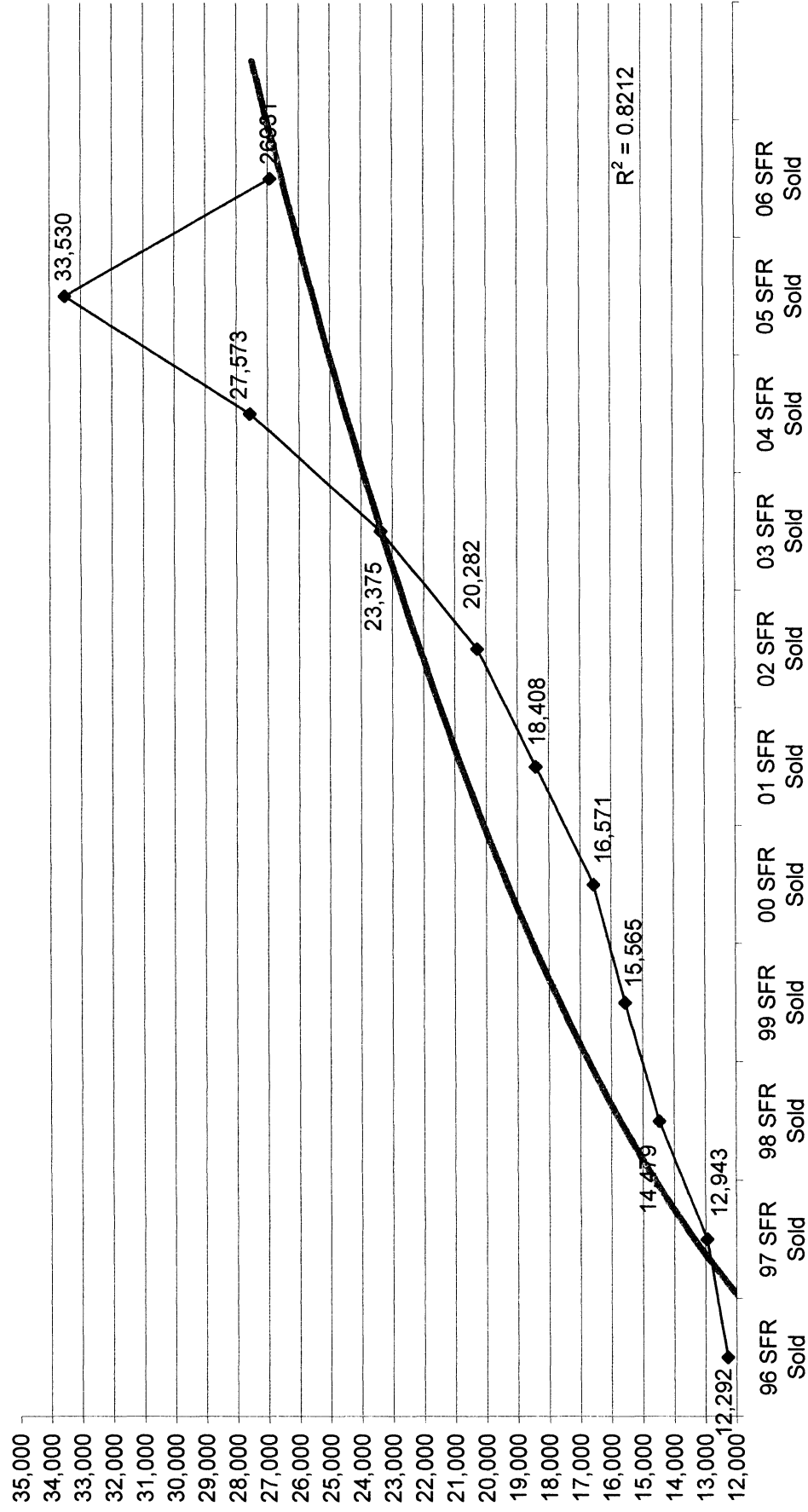


# Total Dollar Volume

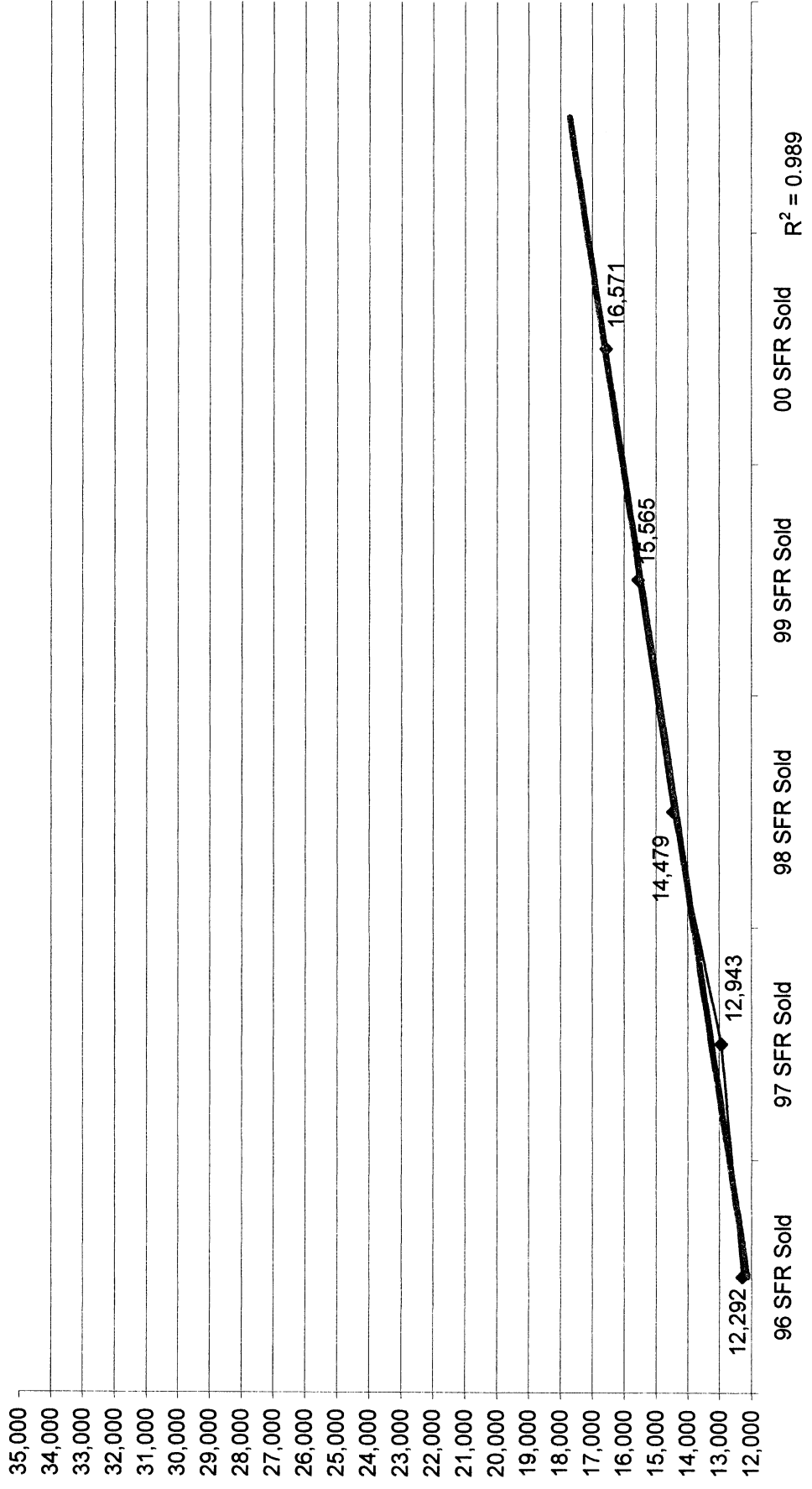




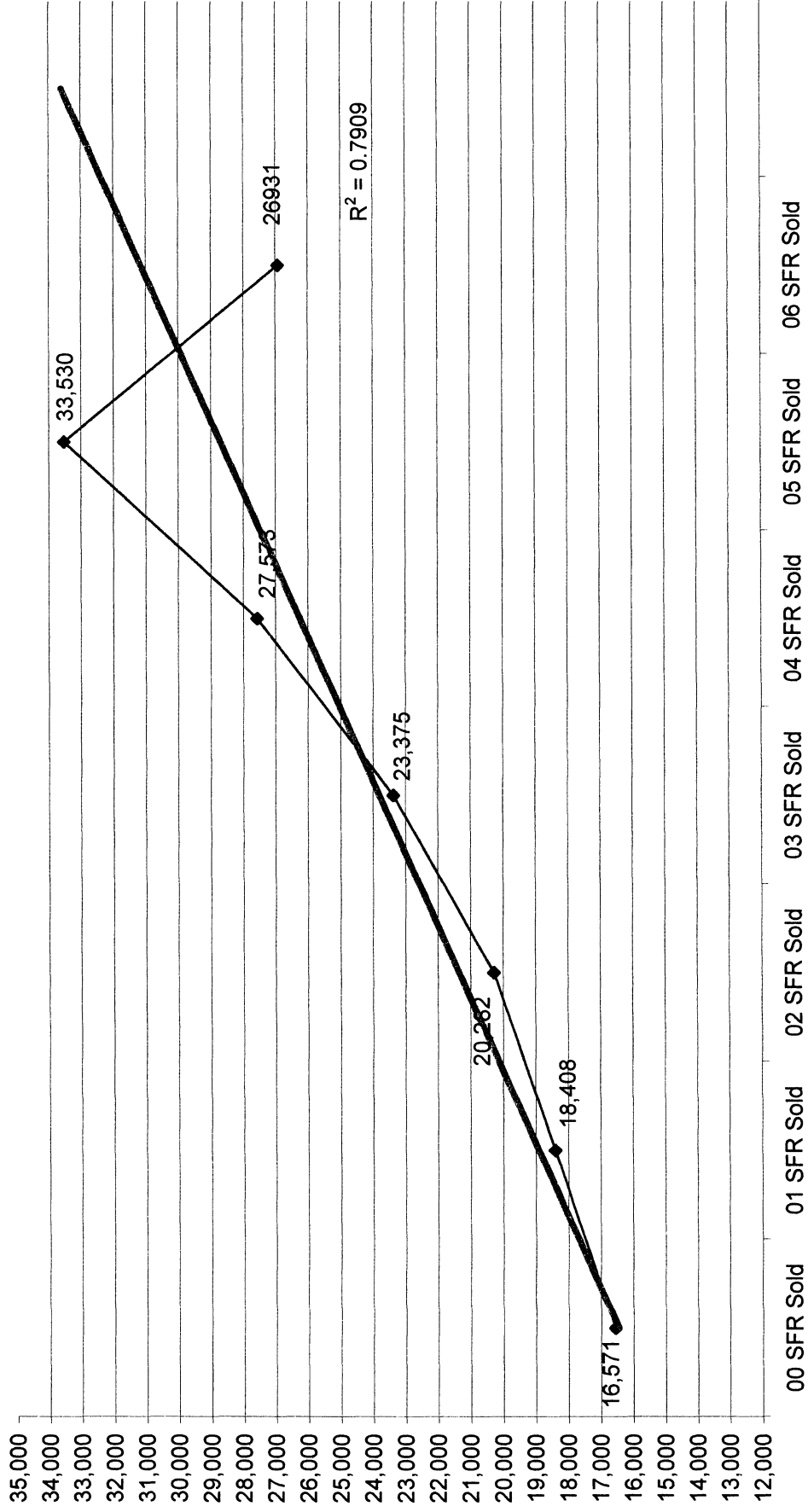
# Tracked Single Family Residential Units Sold Statewide



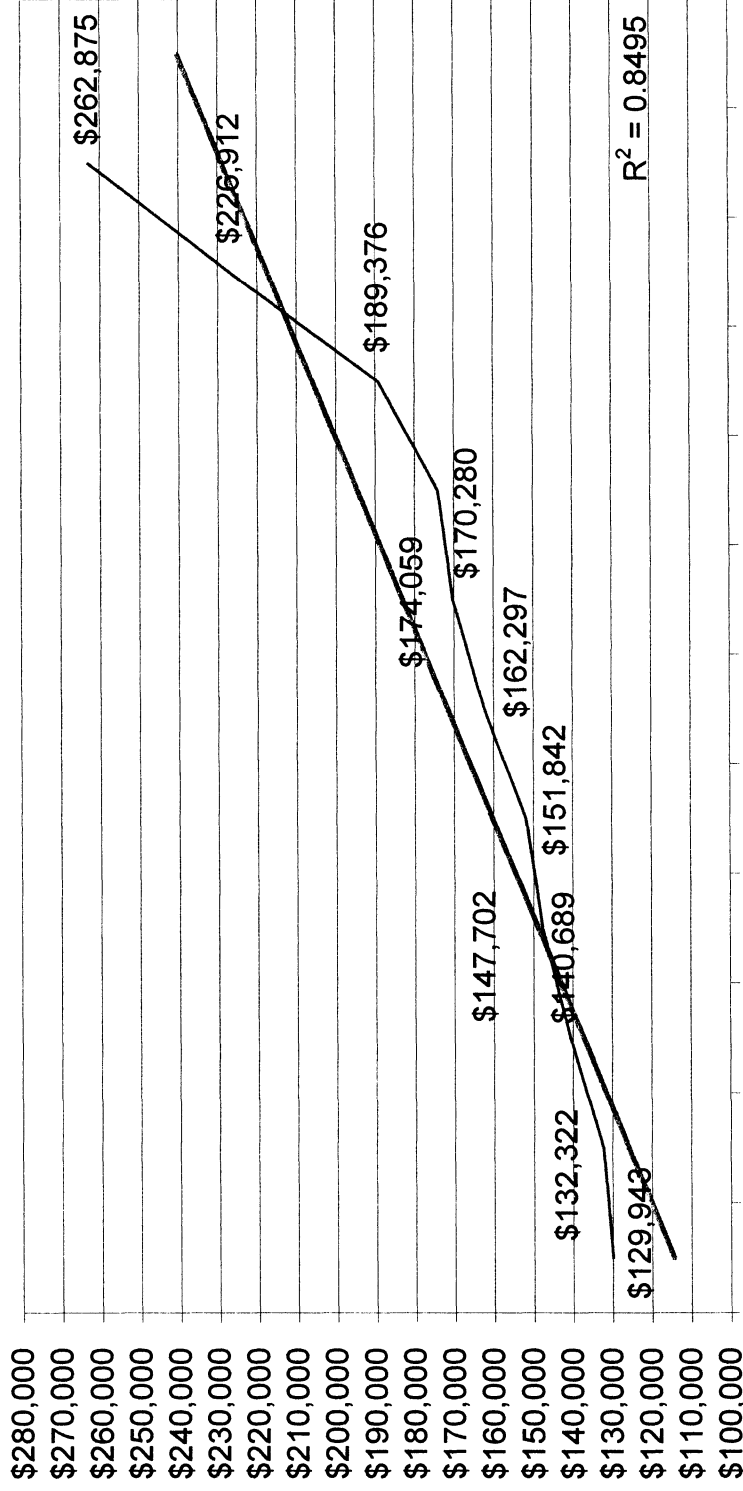
# Tracked Single Family Residential Units Sold Statewide



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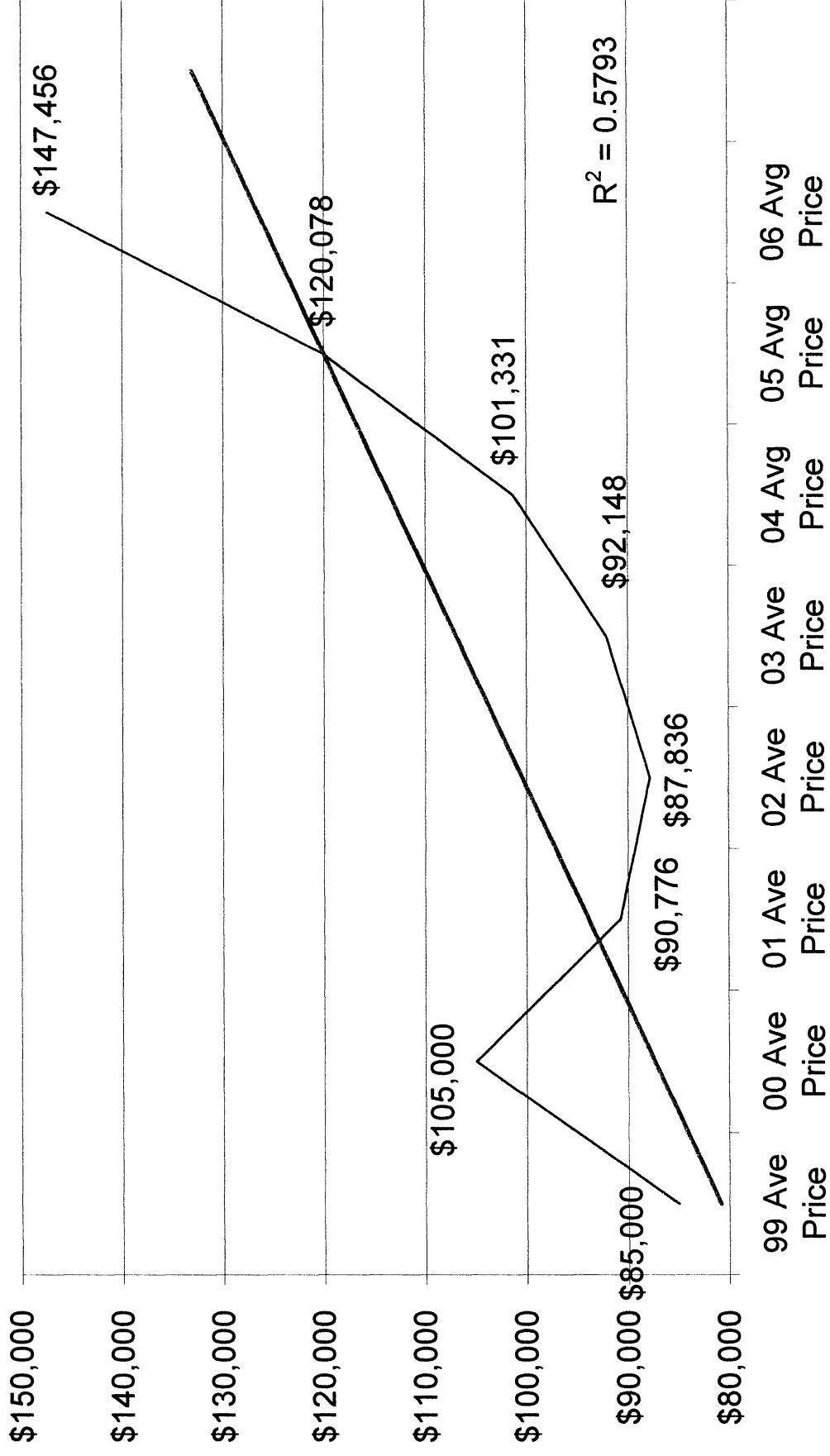


# Ada County

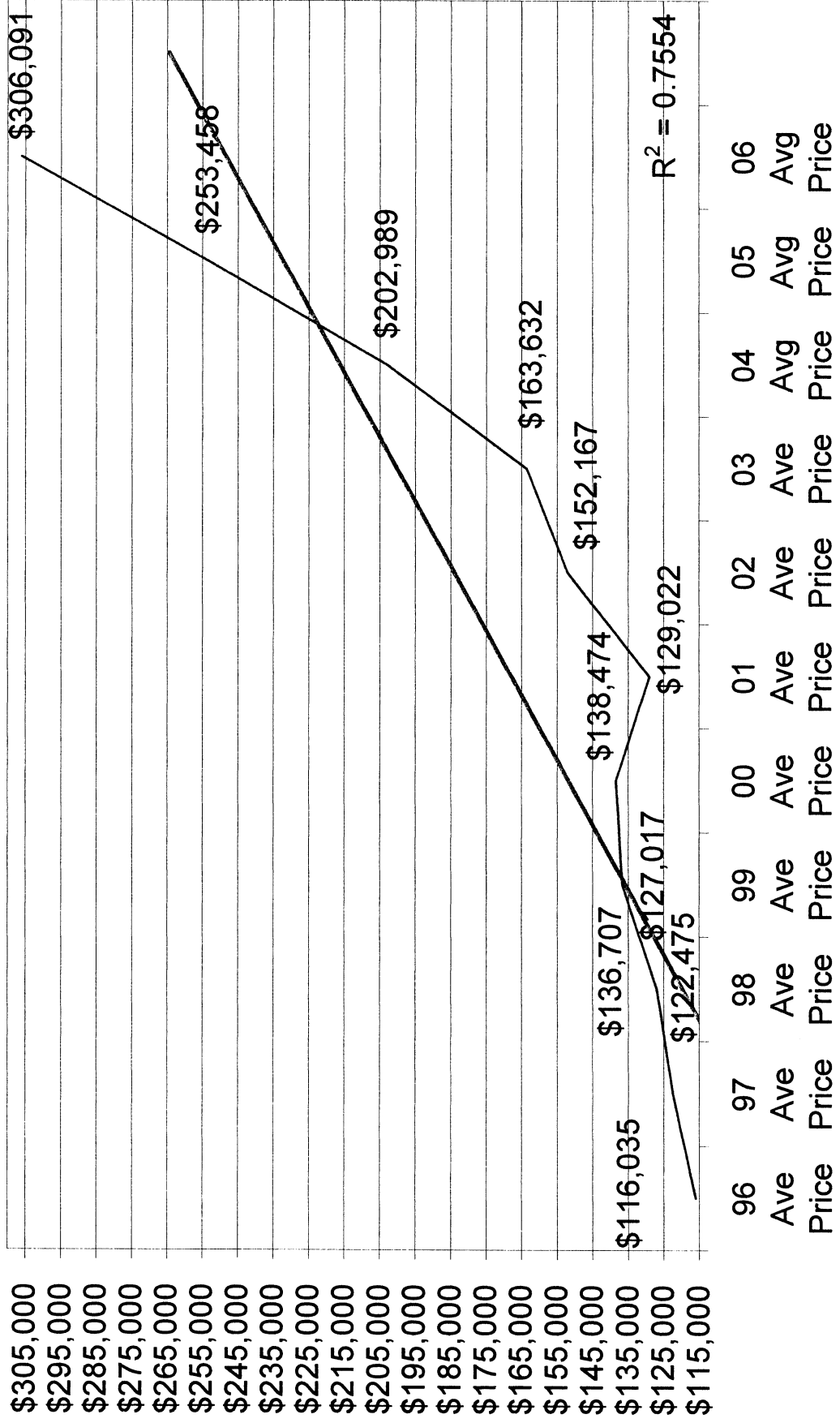


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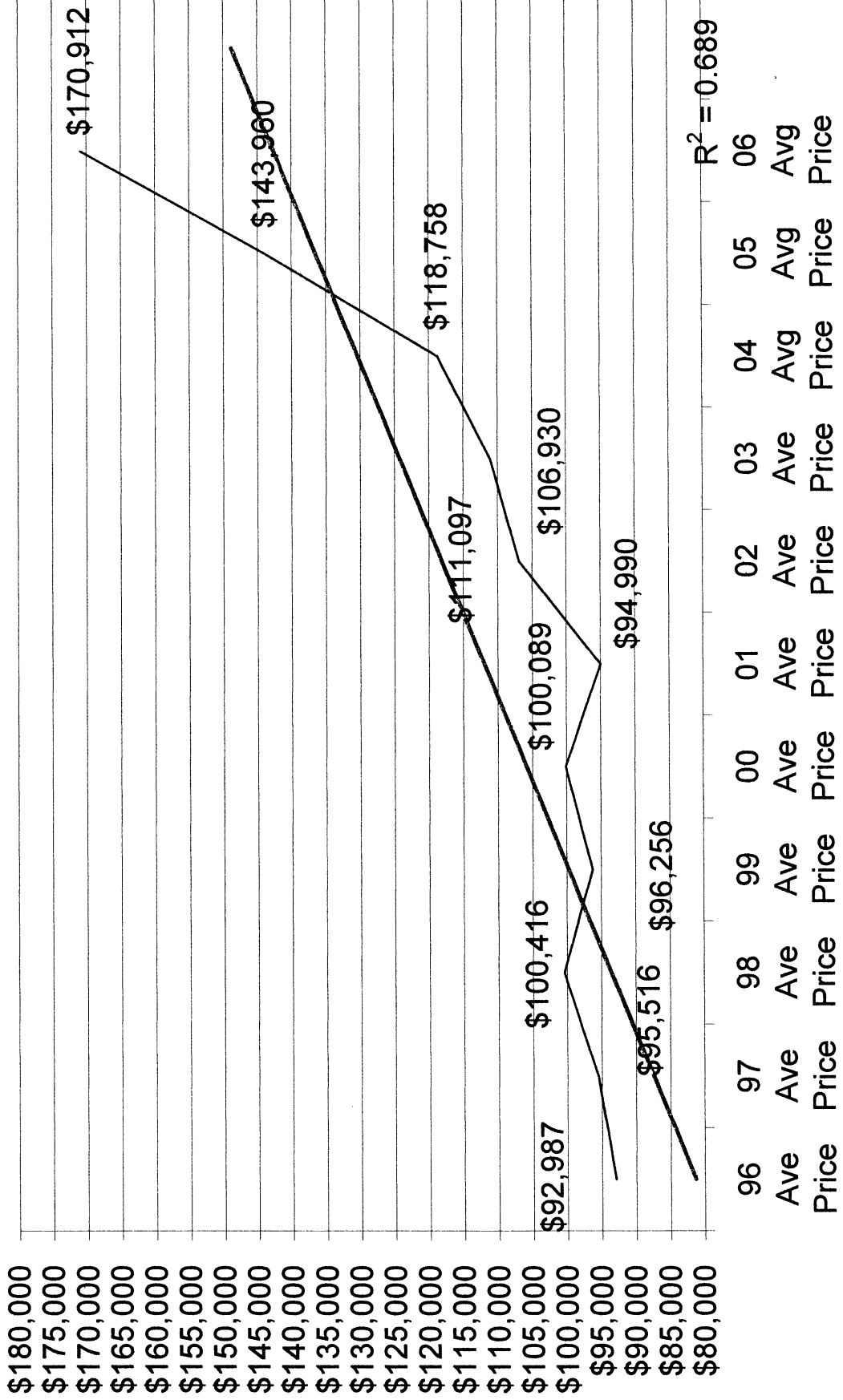
Blackfoot



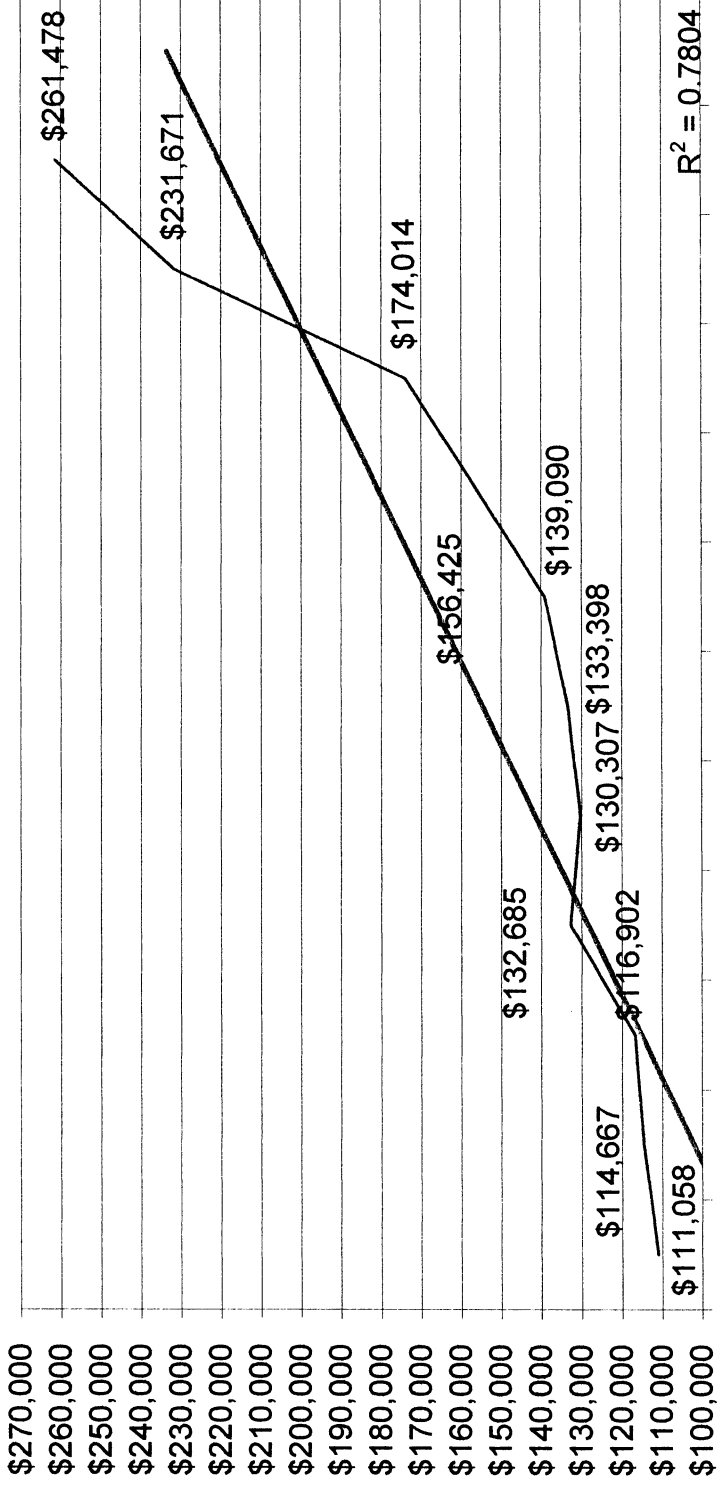
### Selkirk/Sandpoint



### Canyon County/Nampa, Caldwell



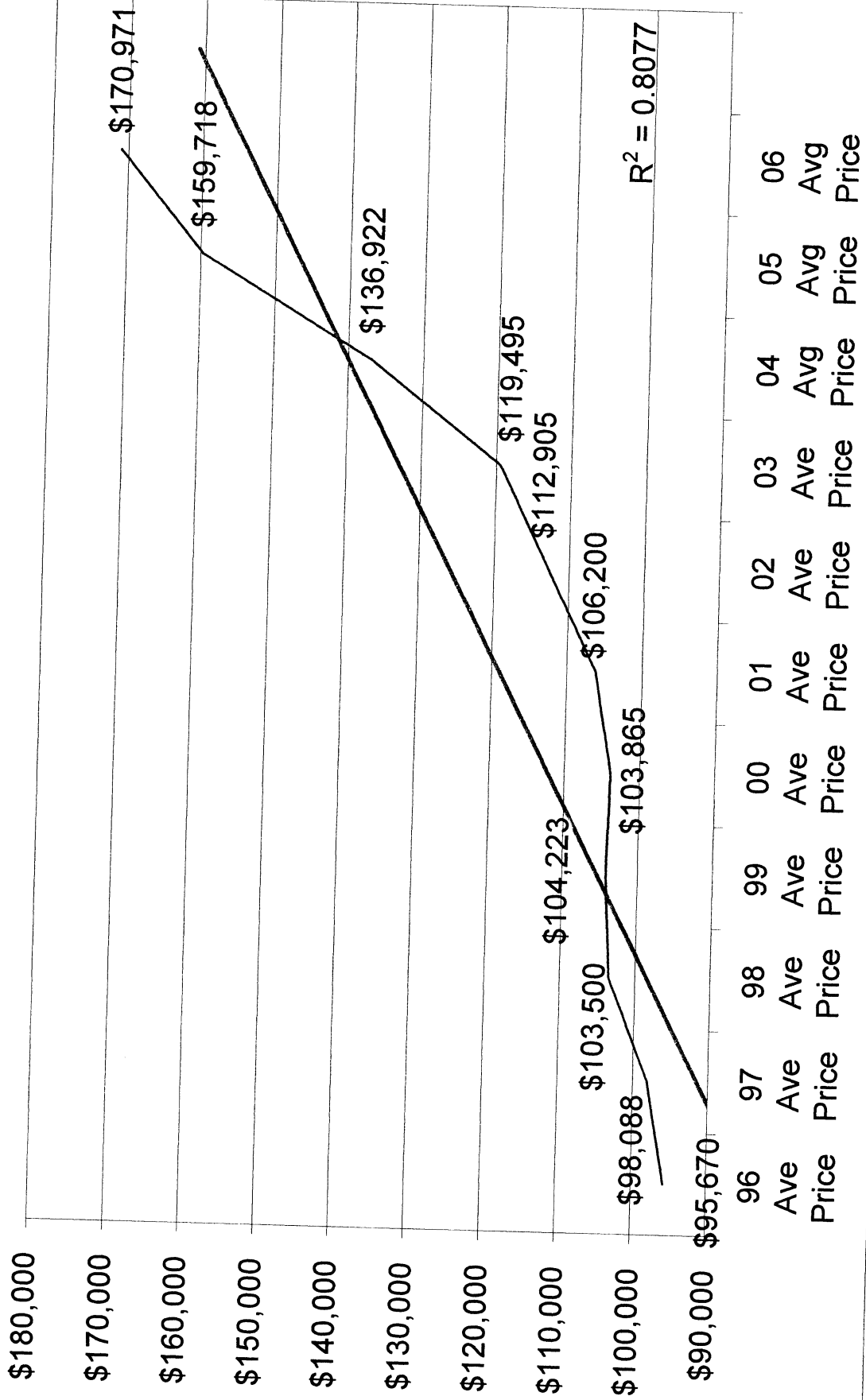
Kootenai/  
Coeur d'Alene, Post Falls



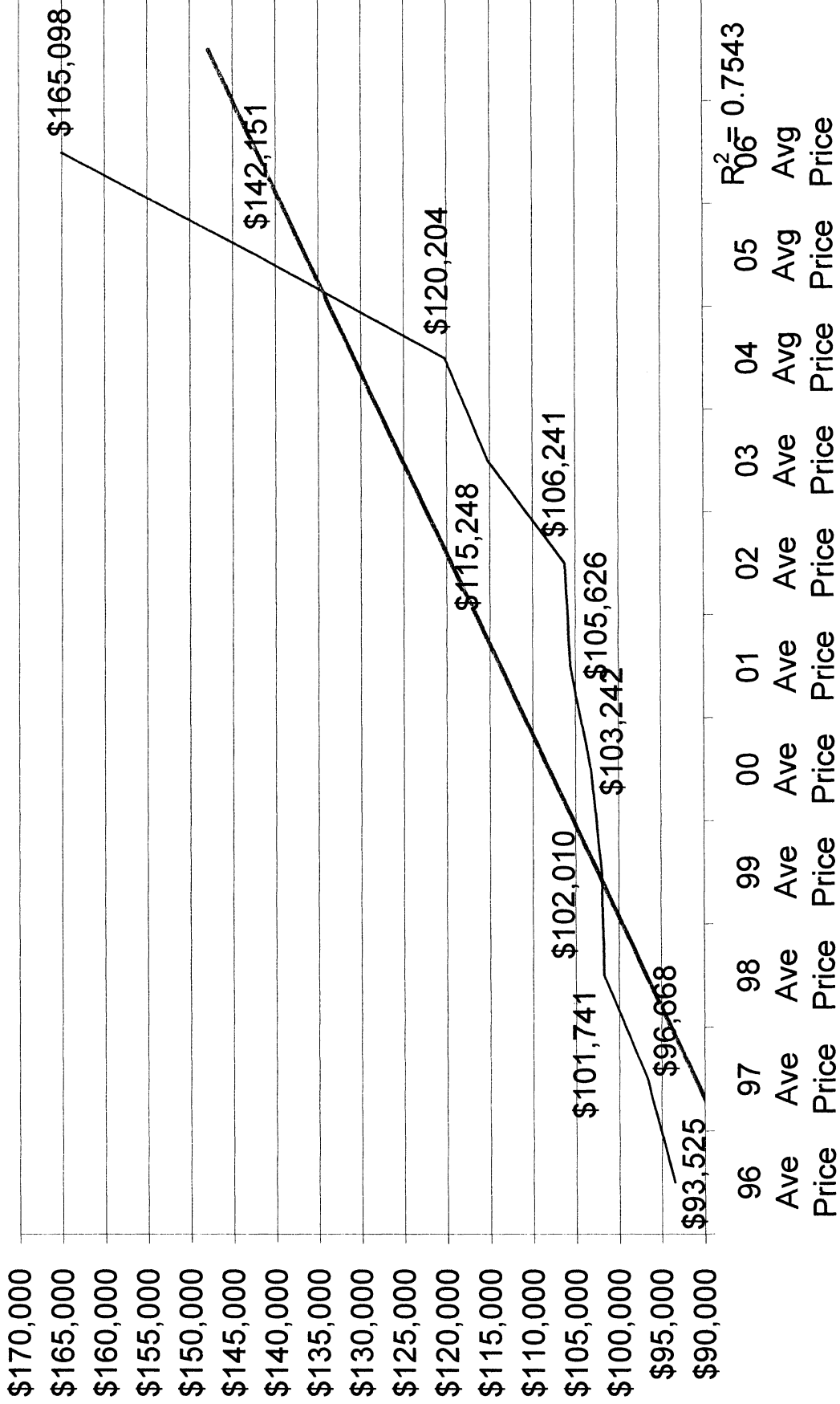
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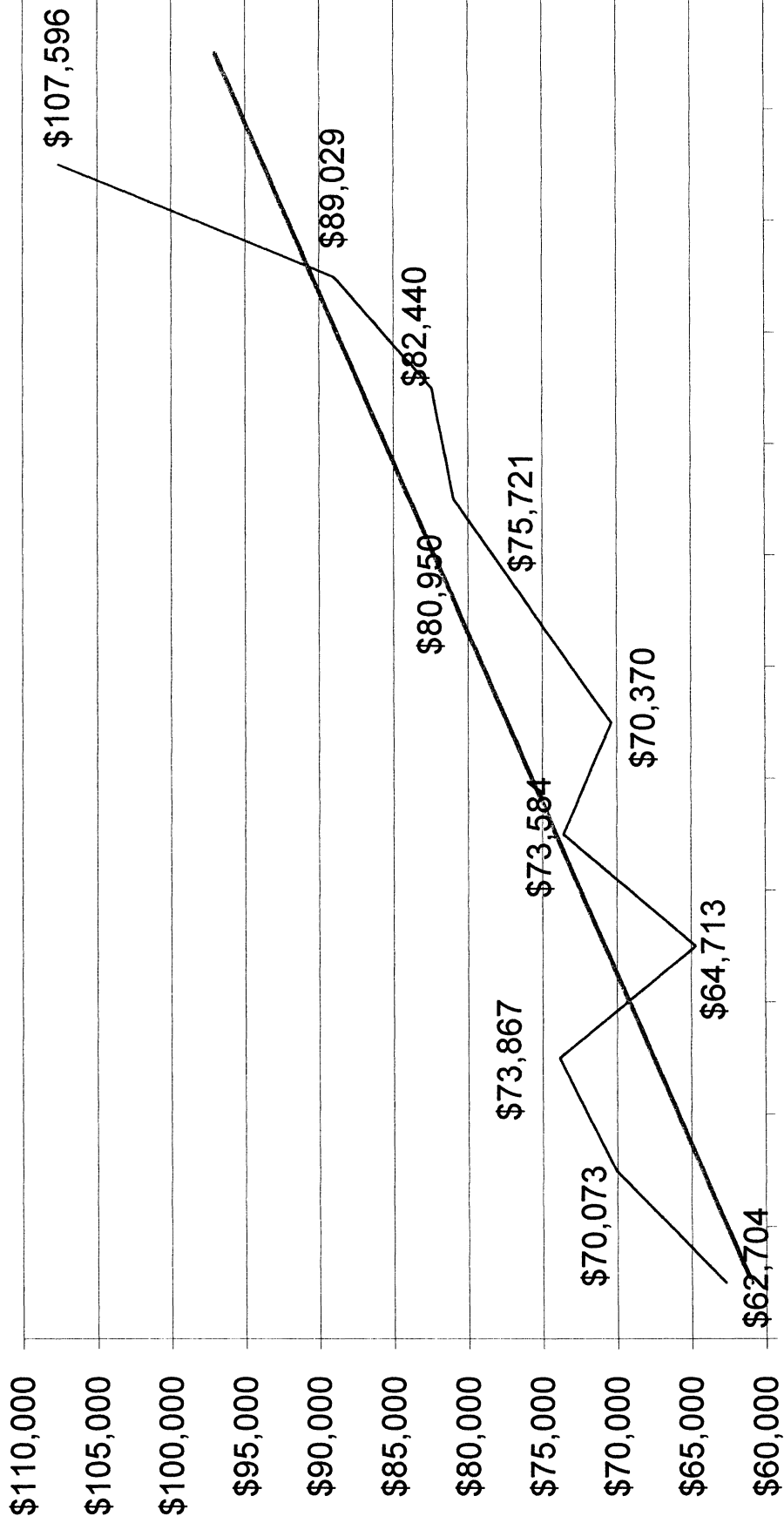
Idaho Falls, Madison, Fremont



### Lewiston Area

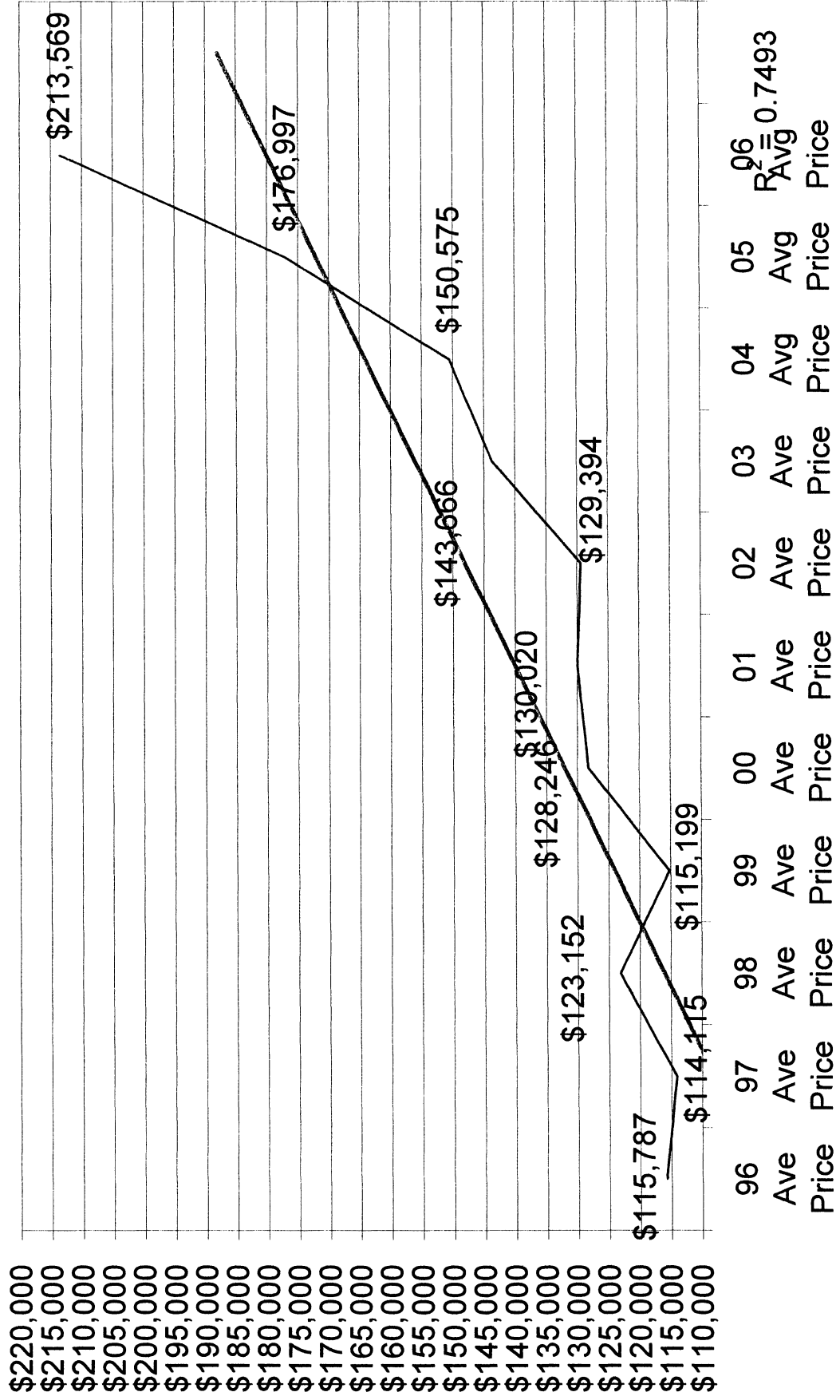


### Mini-Cass/Burley, Rupert

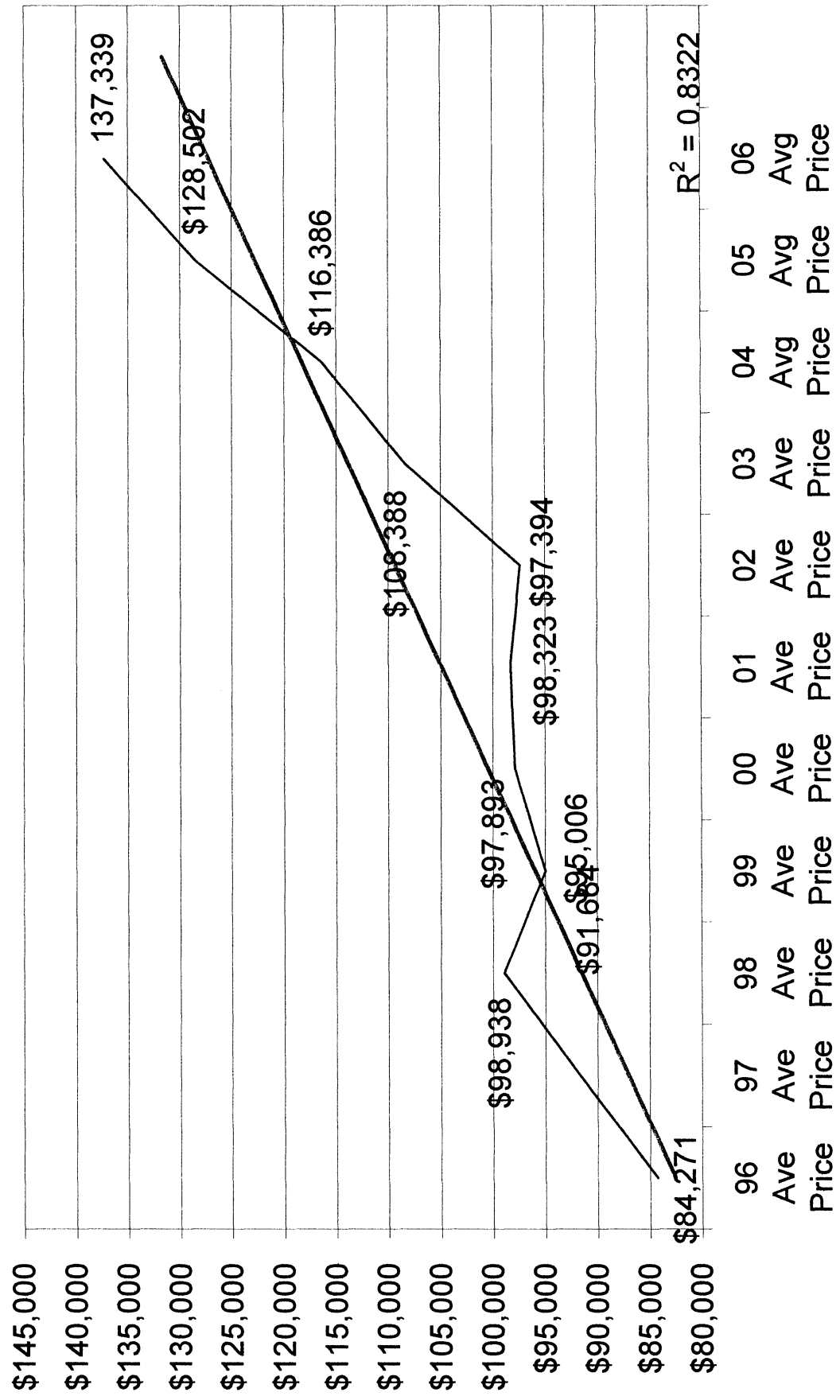


96 Ave Price \$62,704  
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 98 Ave Price \$73,867  
 99 Ave Price \$64,713  
 00 Ave Price \$73,584  
 01 Ave Price \$70,370  
 02 Ave Price \$80,950  
 03 Ave Price \$75,721  
 04 Ave Price \$82,440  
 05 Avg Price \$89,029  
 06 Avg Price \$107,596  
 R<sup>2</sup> Avg Price \$7412

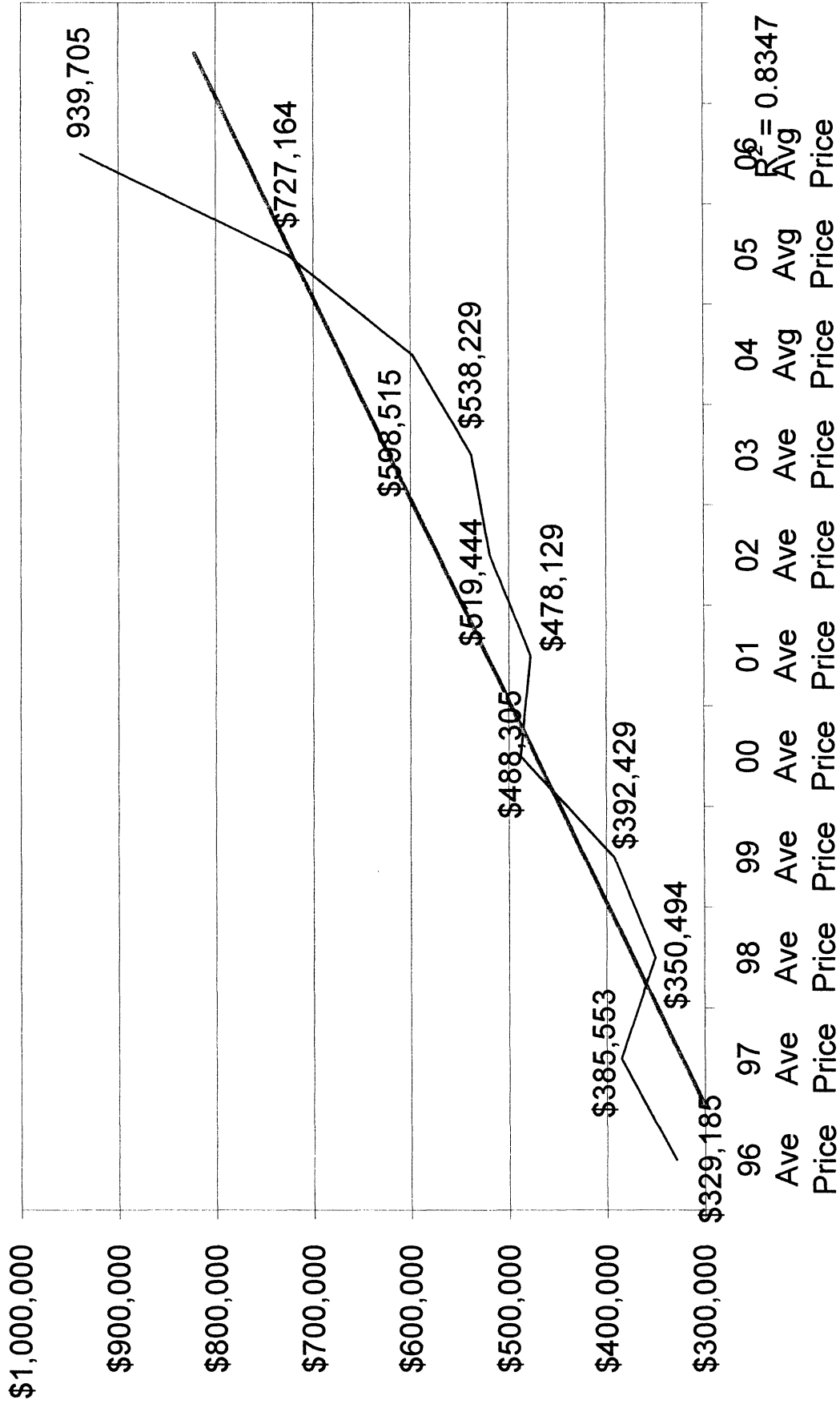
### Moscow Area



Pocatello, American Falls



### Sawtooth/Sun Valley, Ketchum



939,705

### Twin Falls, Buhl, Filer

