



Idaho Association of REALTORS®
Presentation to the 2010 Joint Legislative
Economic Outlook and Revenue Assessment
Committee

prepared by

John Eaton, Government Affairs Director





Idaho Association of REALTORS®

The Voice for Real Estate™ in Idaho

- 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.
- Real Estate and Construction currently account for 17.5 percent of the Idaho Gross State Product.



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IDAHO GROSS STATE PRODUCT BY INDUSTRY (millions of calendar year current dollars)

NAICS Code	Industry Sector*	1998		2008		1998-2008	1998-2008	1998-2008	1998-2008
		\$ Amt	% of Total	\$ Amt	% of Total	\$ Change	10 year Percent Change	Annualized Percent Change	% of Total Change
167	Health Care and Social Assistance	1,795	6.0%	3,933	7.5%	2,138	119.1%	8.2%	1.43%
158	Professional and Technical Services	1,883	6.3%	3,991	7.6%	2,108	111.9%	7.8%	1.25%
163	Administrative and Waste Services	605	2.0%	1,680	3.2%	1,075	177.7%	10.8%	1.15%
155	Real Estate, Rental, and Leasing	3,326	11.2%	6,492	12.3%	3,166	95.2%	6.9%	1.15%
106	Mining	161	0.5%	562	1.1%	401	249.1%	13.3%	0.53%
150	Finance and Insurance	1,239	4.2%	2,452	4.6%	1,213	97.9%	7.1%	0.49%
145	Information	601	2.0%	1,229	2.3%	628	104.5%	7.4%	0.31%
171	Arts, Entertainment and Recreation	202	0.7%	461	0.9%	259	128.2%	8.6%	0.20%
166	Educational Services	131	0.4%	326	0.6%	195	148.9%	9.5%	0.18%
174	Accommodation and Food Services	798	2.7%	1,458	2.8%	660	82.7%	6.2%	0.09%
110	Utilities	593	2.0%	1,069	2.0%	476	80.3%	6.1%	0.04%
135	Retail Trade	2,530	8.5%	4,452	8.4%	1,922	76.0%	5.8%	-0.05%
178	State, Fed & Local Government	4,290	14.4%	7,544	14.3%	3,254	75.9%	5.8%	-0.09%
136	Transportation & Warehousing	973	3.3%	1,600	3.0%	627	64.4%	5.1%	-0.23%
177	Other Services	711	2.4%	1,076	2.0%	365	51.3%	4.2%	-0.35%
134	Wholesale Trade	1,756	5.9%	2,821	5.3%	1,065	60.6%	4.9%	-0.54%
103	Agriculture, Forestry, Fish and Hunting	1,831	6.1%	2,905	5.5%	1,074	58.7%	4.7%	-0.64%
162	Management of Companies	645	2.2%	774	1.5%	129	20.0%	1.8%	-0.70%
111	Construction	1,935	6.5%	2,720	5.2%	785	40.6%	3.5%	-1.34%
112	Manufacturing	3,795	12.7%	5,201	9.9%	1,406	37.0%	3.2%	-2.87%
Total Gross State Product		29,800	100%	52,746	100%	22,946	77.0%	5.9%	0.00%
Calendar Year CPI		163.0		215.3			32.1%	2.8%	
Real Growth in GSP							44.9%	3.1%	



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When a home is sold in Idaho...

- **NAR estimates the total income derived from the sale of a new home in Idaho to be \$57,851.**
- *Since this study was done we have seen a significant reduction in the average price of a home. It follows that there has been be a reduction in total income derived from the sale of a home in Idaho in 2009, which also means less tax revenue for the state.*

Economic Impact of Real Estate Activity In Idaho
by NAR Research, April 2008



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More Idaho Homes Sold in 2009

- 2008 Tracked Single Family Residential Sales = 14,834
- 2009 Tracked Single Family Residential Sales = 15,692
- This represents a 5.78 percent increase statewide.



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However, prices continue to decline...

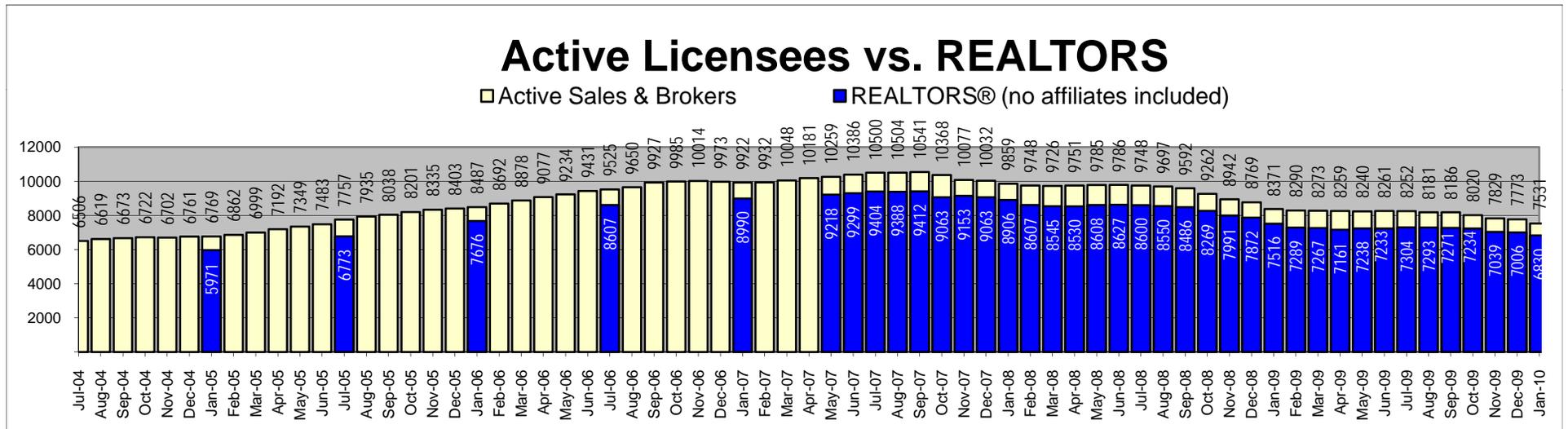
- 2008 Tracked SFR Average Price = \$212,817
- 2009 Tracked SFR Average Price = \$177,229
- This represents a 16.72 percent decrease statewide.
- More houses are selling, but for less money.



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IAR MEMBERSHIP





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MOST SELLERS USE A REAL ESTATE AGENT

Method Used to Sell Home (percentage distribution)*

Through real estate agent or broker	84 %
Through agent/broker only	81
Seller tried to sell him/herself, then used agent	3
For sale by owner (FSBO)	13
Seller sold home without using agent or broker	11
Seller first listed property with agent, then sold home him/herself	2
Sold home to a home buying company	1
Other	2

Source: The 2008 NAR Profile of Home Buyers and Sellers

* detail may not add due to rounding



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FEDERAL QUESTIONS

- Health Care bill a major concern for business expansion in general, and specifically for the construction industry.
- Home Valuation Code of Conduct (HVCC).
- Cap and Trade would have a major impact on housing.
- Continue tax credit for first time buyers.
- Increasing deficits will continue to have a drag on the economy.
- New Lending Regulations and Mortgage Insurance availability.
- Unprecedented number of new federal regulations impacting the real estate economy at the same time.

Housing Market Trends & Outlook

***Lawrence Yun, Ph.D.
Chief Economist
NATIONAL ASSOCIATION
OF REALTORS®***

***Presentation at NAR Annual
Conference in San Diego***

November , 2009

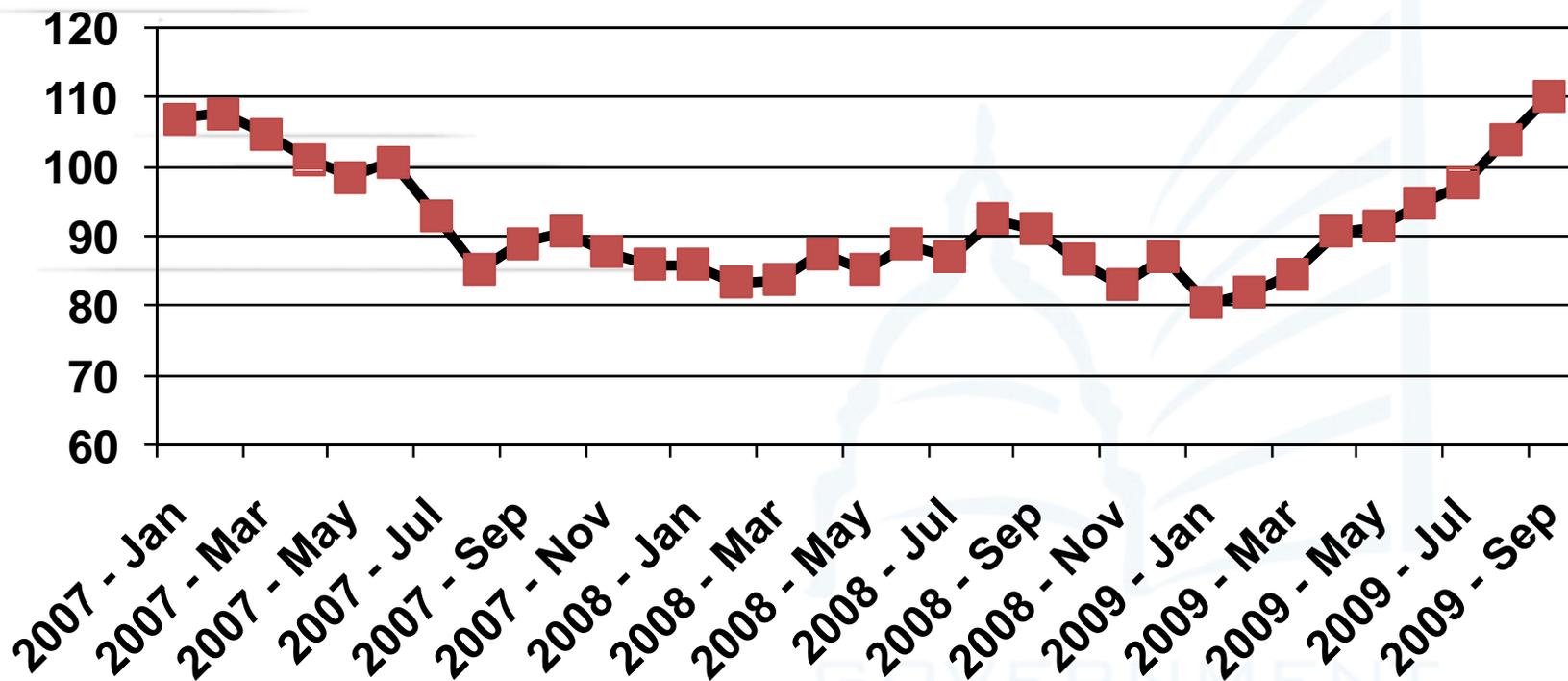


Housing Stimulus Impact

- ***Tax Credit and Higher Loan Limit***
- ***Raised Sales by 350,000 to 400,000 among First-time buyers in 2009***
- ***In 2010***
 - ***Existing Home Sales gets 15% boost***
 - ***Home Price gets 3% to 5% boost***
- ***Preservation of Middle-Class Wealth***

Recent Pending Home Sales

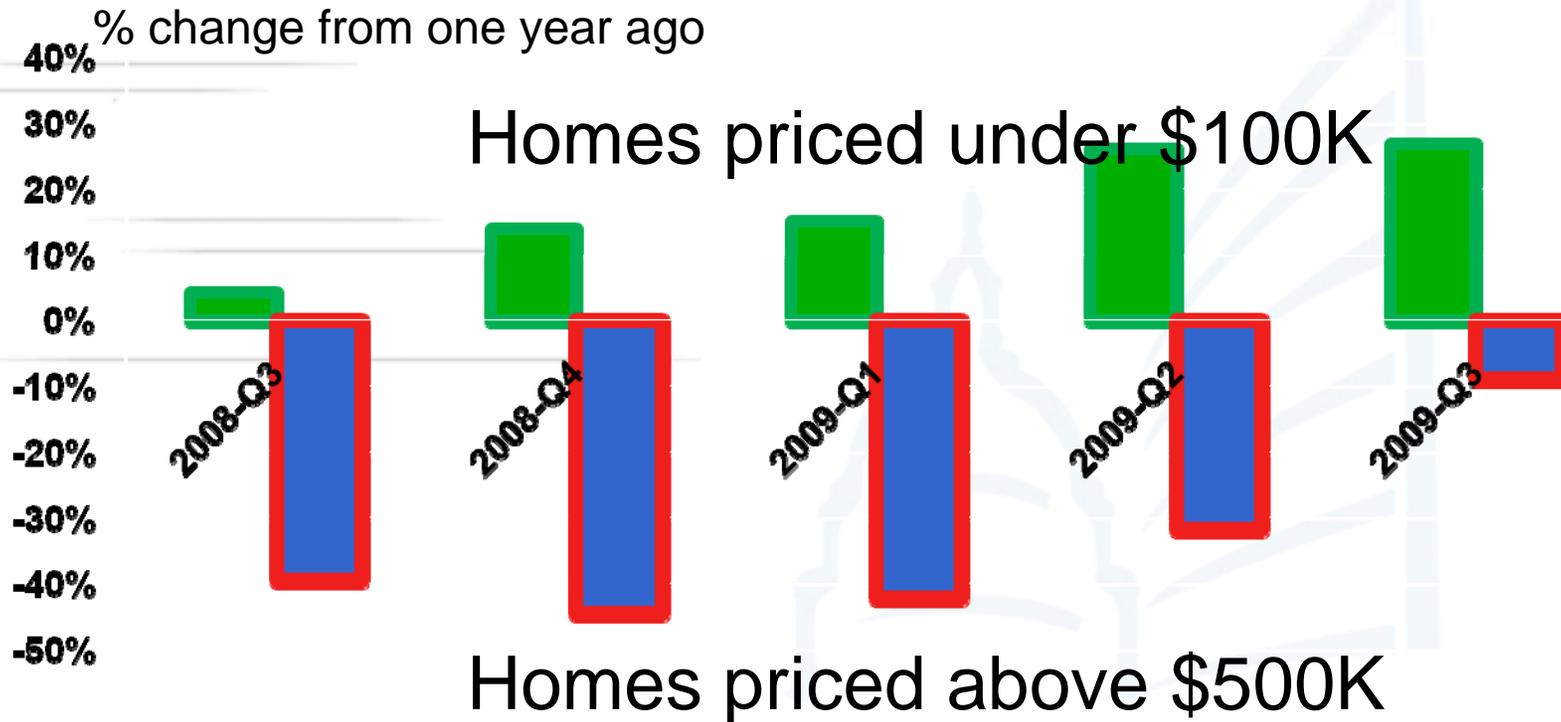
Recovery pre-dominantly in lower-end and taking longer to close in recent months



Source: NAR



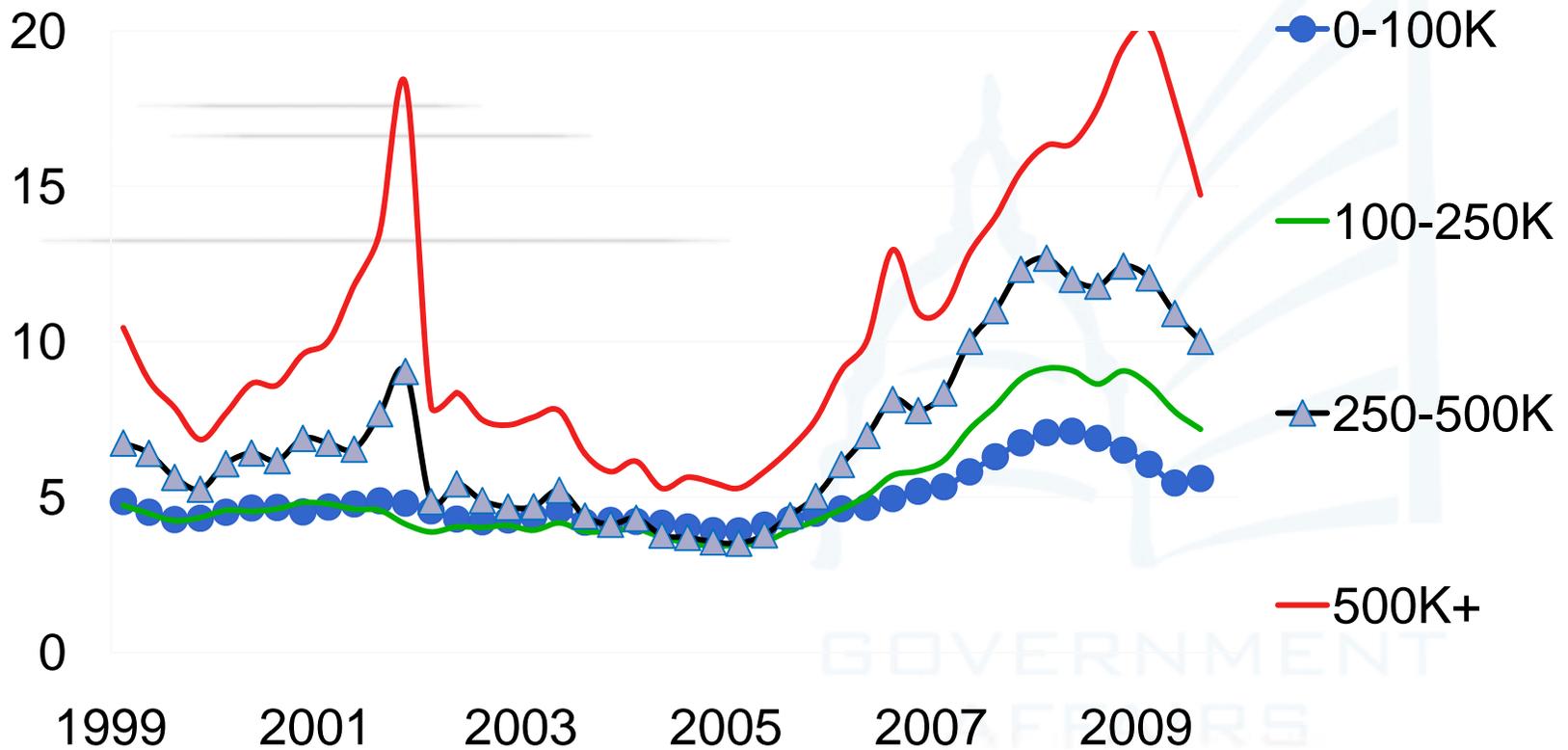
Bifurcated Recovery



Source: NAR



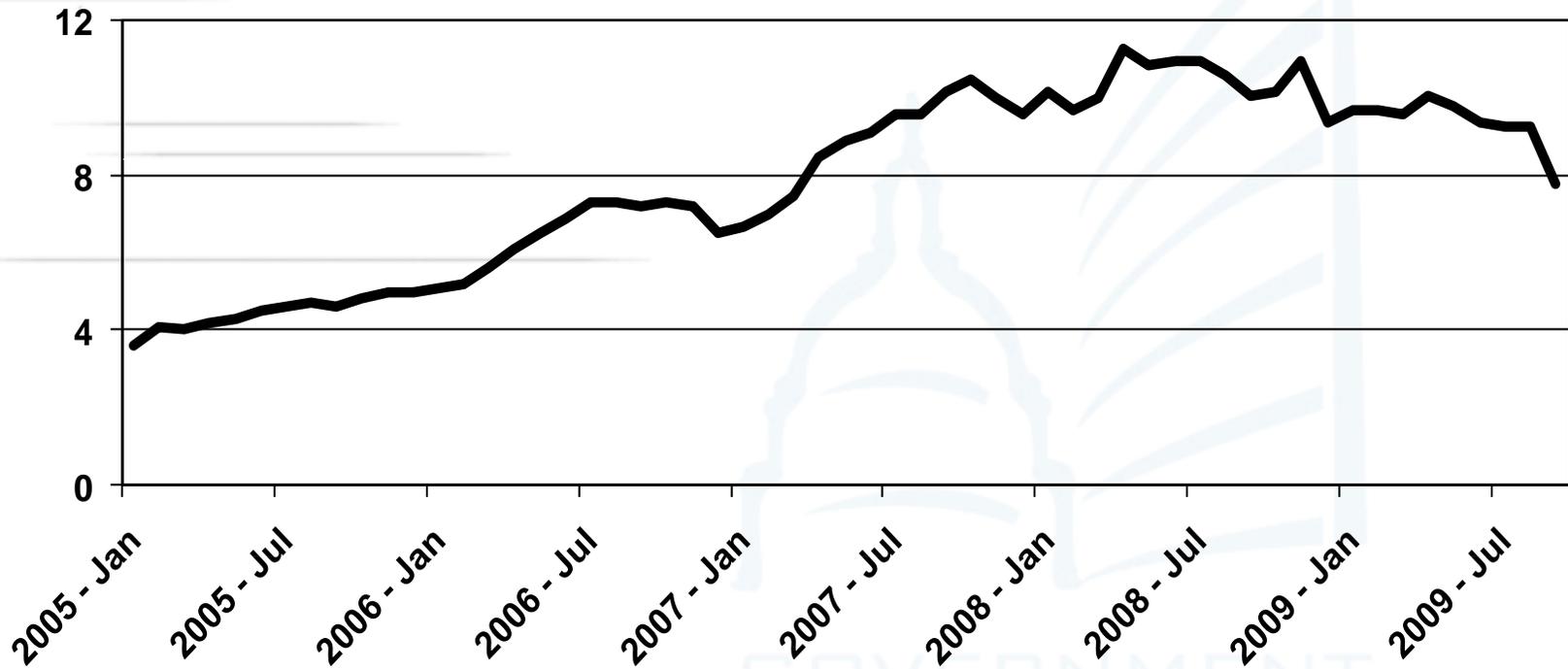
Months Supply of Inventory



Source: NAR



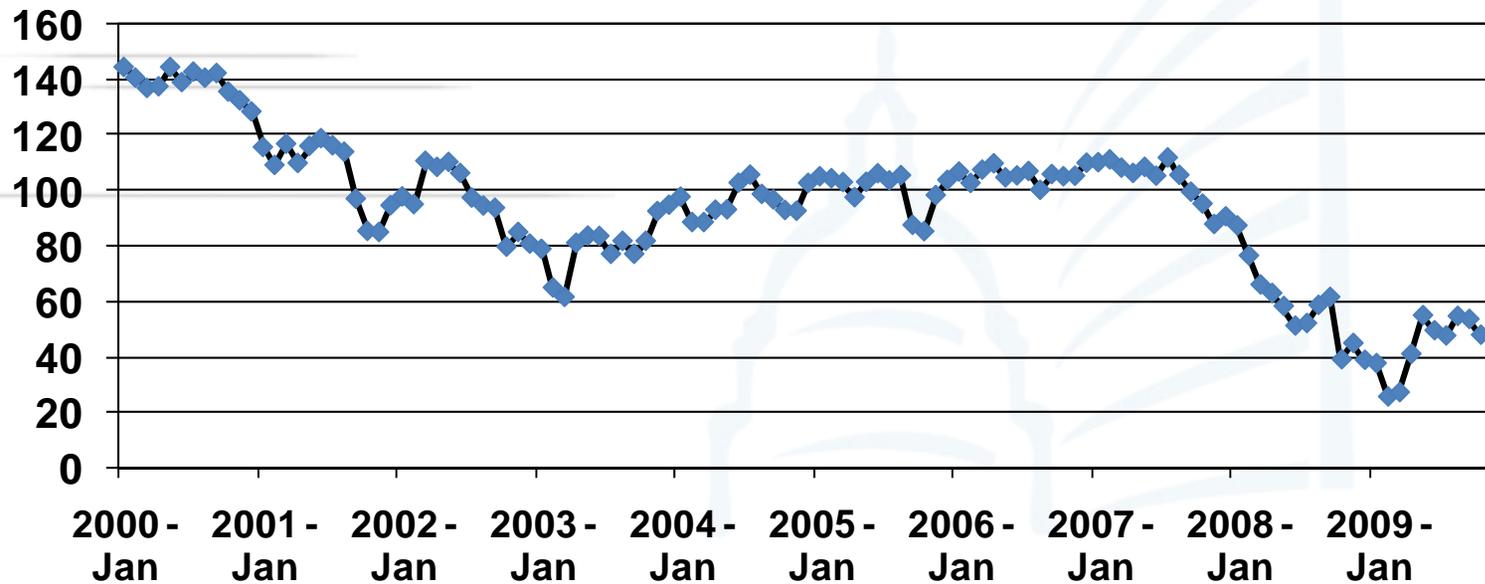
Aggregate Months Supply



Source: NAR



Consumers Confidence is Down, but Rebounding Slightly

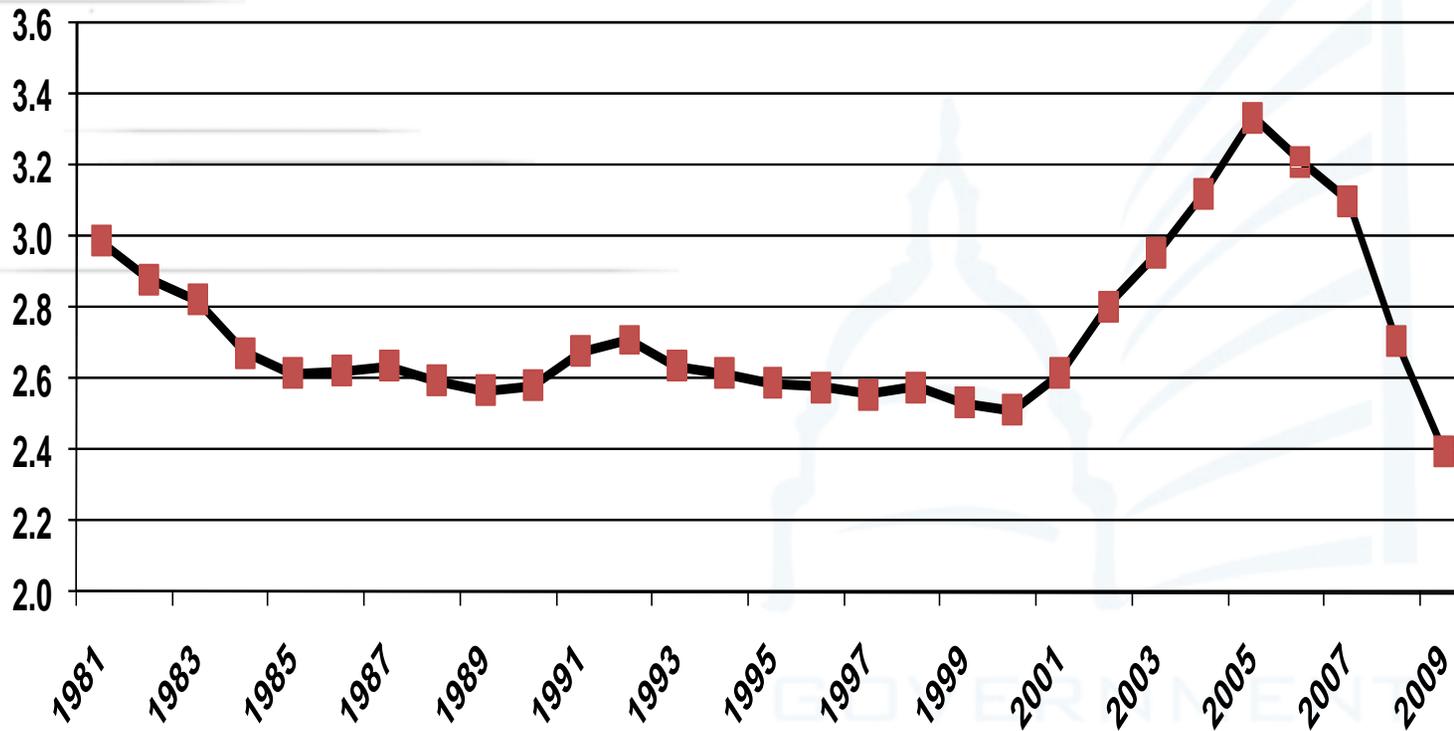


Source: Conference Board



Overcorrection Needs to be Halted

(Home Price to Income Ratio)

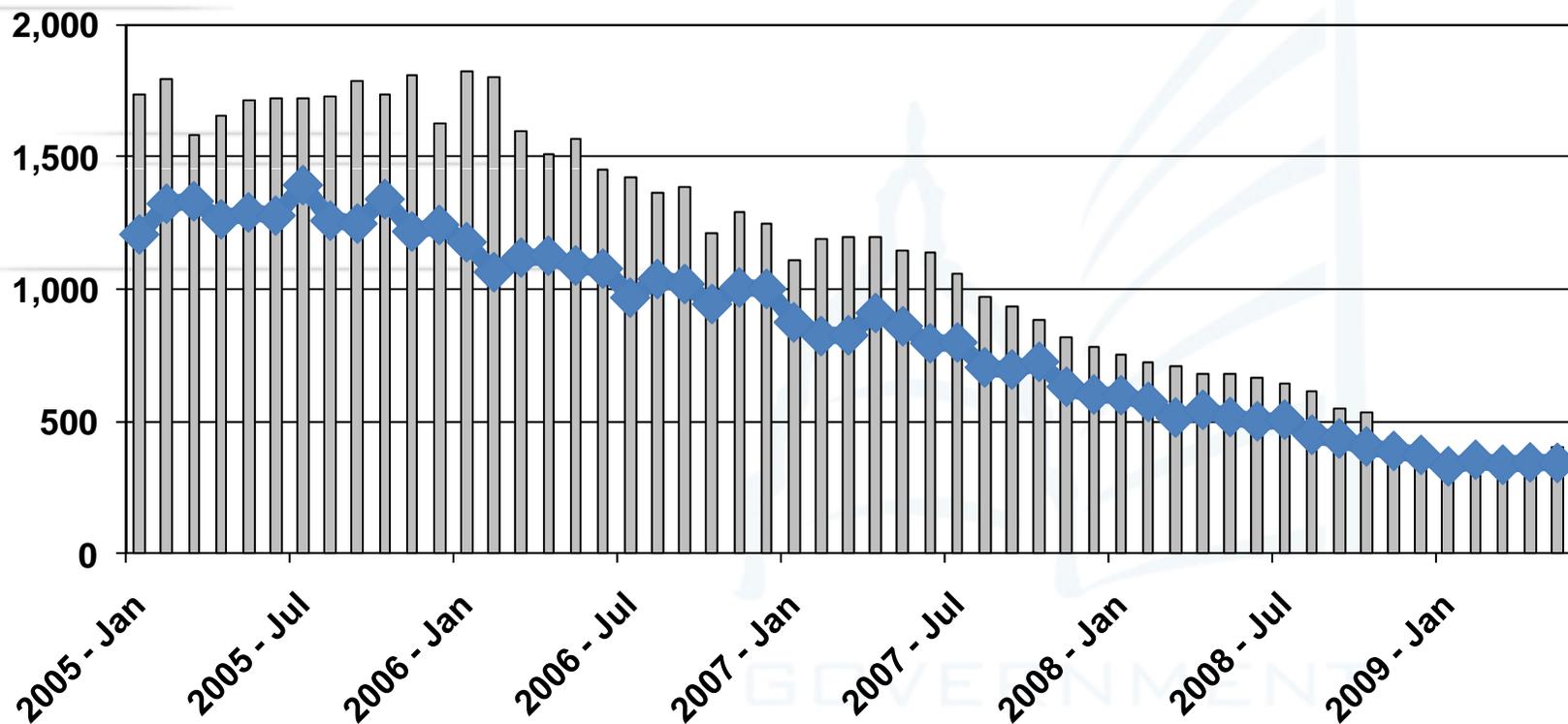


Source: NAR



Homebuilders Down and Out

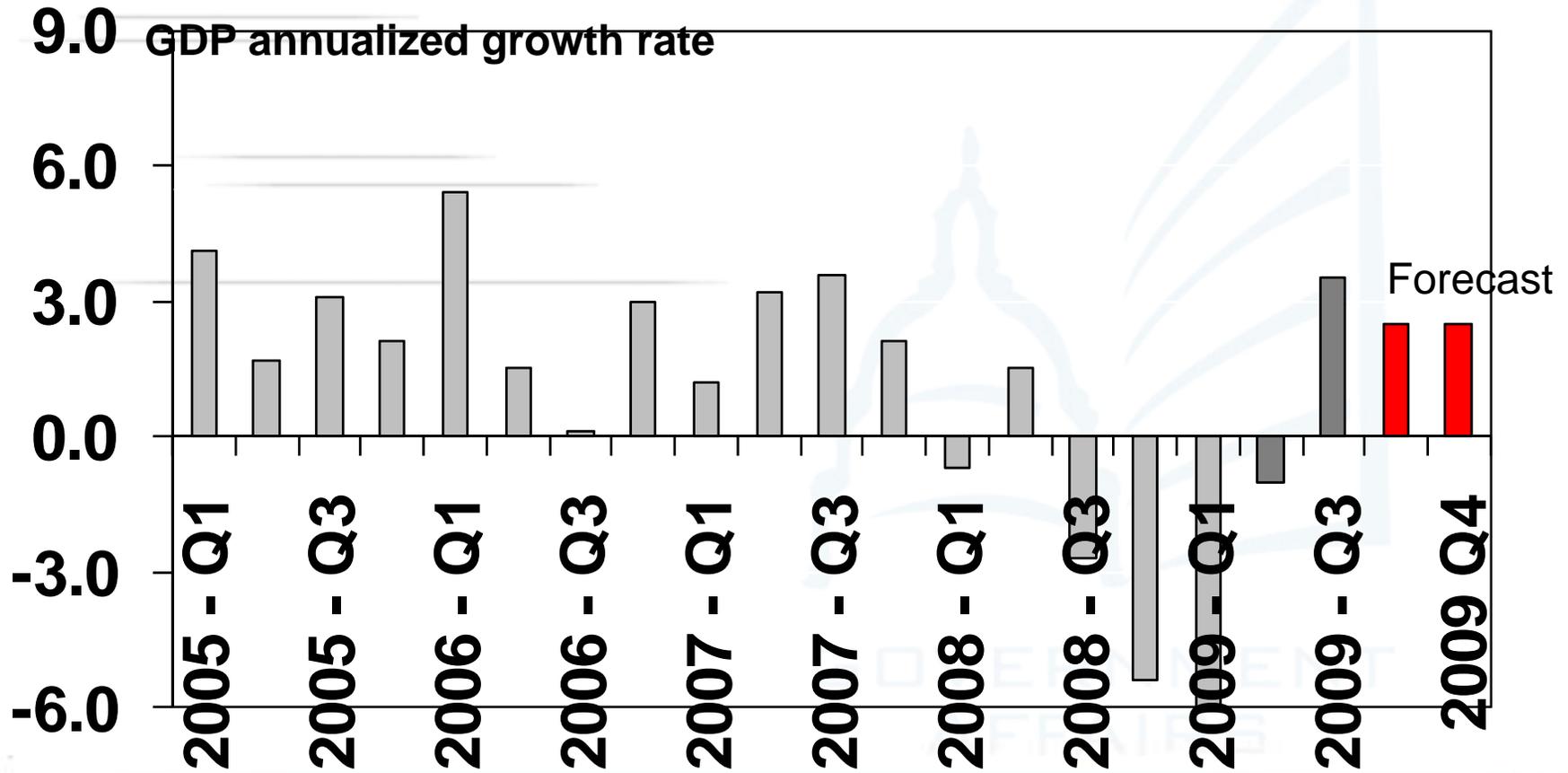
(Single Family Starts and New Home Sales)



Source: Census



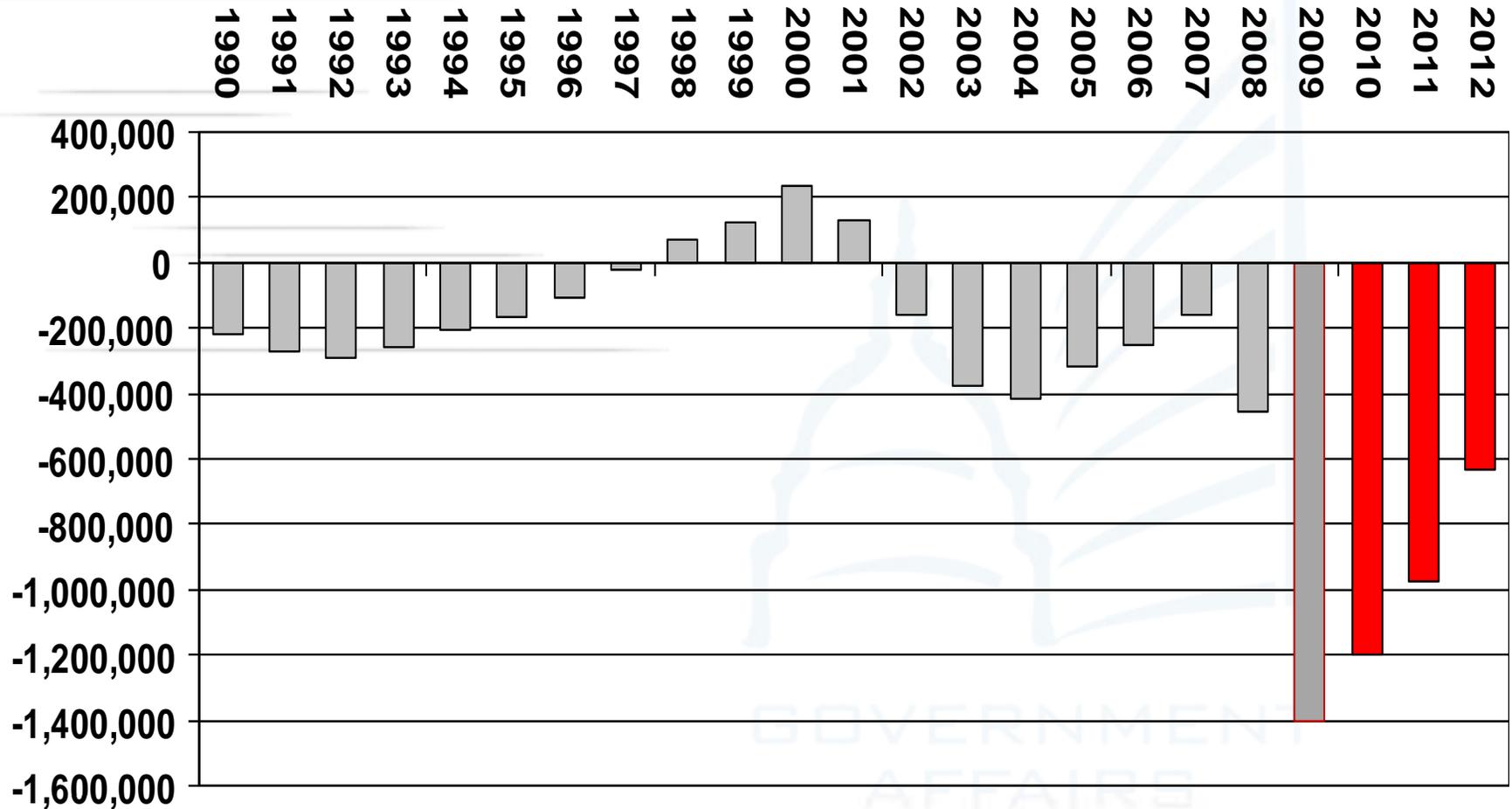
Economy Recovering



Source: BEA



Federal Budget Deficit



Source: CBO, NAR estimate



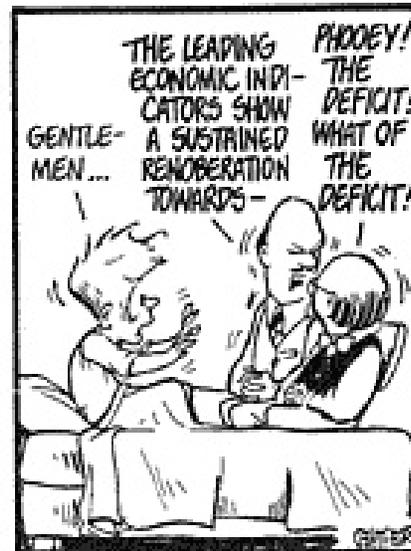
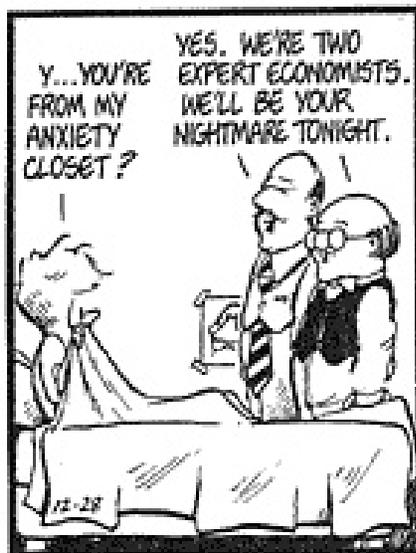


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BLOOM COUNTY

by Berke Breathed



U.S. Economic Outlook

	2008	2009	2010 forecast
GDP	0.4%	-2.5%	2.7%
CPI Inflation	3.8%	-0.4%	1.6%
Unemployment Rate	5.8%	9.3%	9.9%
10-year Treasury	3.7%	3.2%	3.7%

U.S. Housing Outlook

	2008	2009	2010 forecast
Existing Home Sales	4.9 m	5.0 m	5.8 m
New Home Sales	485 k	397 k	560 k
Home Price Growth	-10%	-13%	4%
Mortgage Rate	6.1%	5.2%	5.7%
Price Fear Factor	?	?	None





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IDAHO HOUSING OUTLOOK

- REALTORS® are active and working.
- Prices are down, but sales are moving up.
- Similar to national economy in that the recovery is bifurcated.
- Excess of stock in major markets.
- Mobility is a major problem.
- Idaho will likely lag behind the national recovery in housing sector.
- Expect flat growth for budgeting purposes.



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NATIONAL ASSOCIATION OF REALTORS: HOUSING AFFORDABILITY INDEX

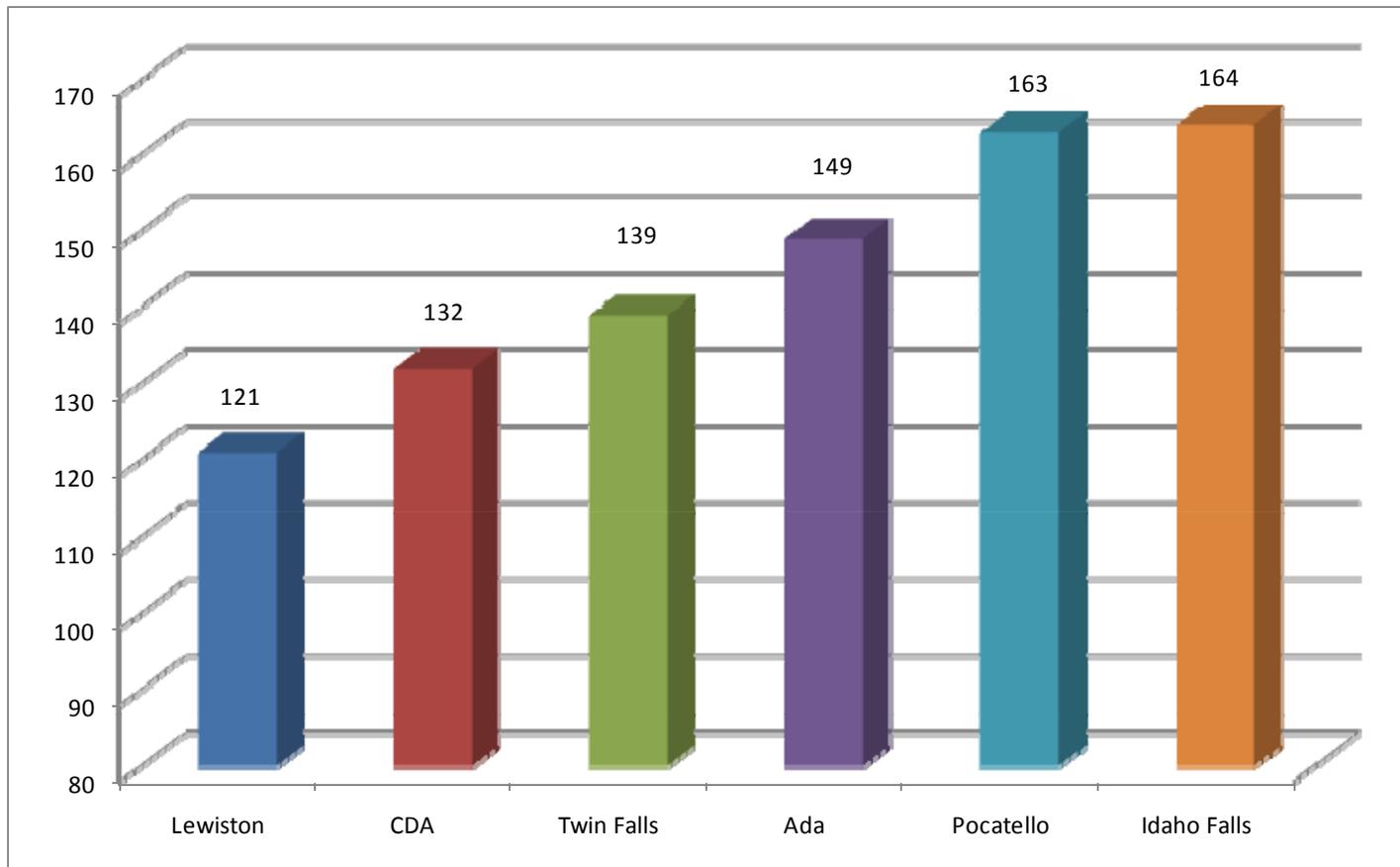
Year	Median Priced Existing Single-Family Home	Mortgage Rate*	Monthly Payment P & I Payment	Payment as a % of Income	Median Family Income	Qualifying Income**	Affordability Indexes			
							Composite	Fixed	ARM	
2006	221,900	6.58	1131	23.2	58,407	54,288	107.6	107.1	109.6	
2007	217,900	6.52	1104	21.6	61,355	52,992	115.8	115.7	117.9	
2008	196,600	6.15	958	18.5	62,030	45,984	134.9	134.5	140.0	
2009	Nov	171,900	5.09	746	14.9	60,034	35,808	167.7	167.0	N/A*
							This Month	Month Ago	Year Ago	
	Northeast	221,400	5.02	953	17.5	65,251	45,744	142.6	131.6	106.7
	Midwest	139,400	5.09	605	11.8	61,521	29,040	211.8	204.8	191.5
	South	153,100	5.11	666	14.4	55,321	31,968	173.1	176.1	154.8
	West	235,000	5.12	1,023	19.8	62,058	49,104	126.4	131.8	108.8



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Affordability Index in Idaho

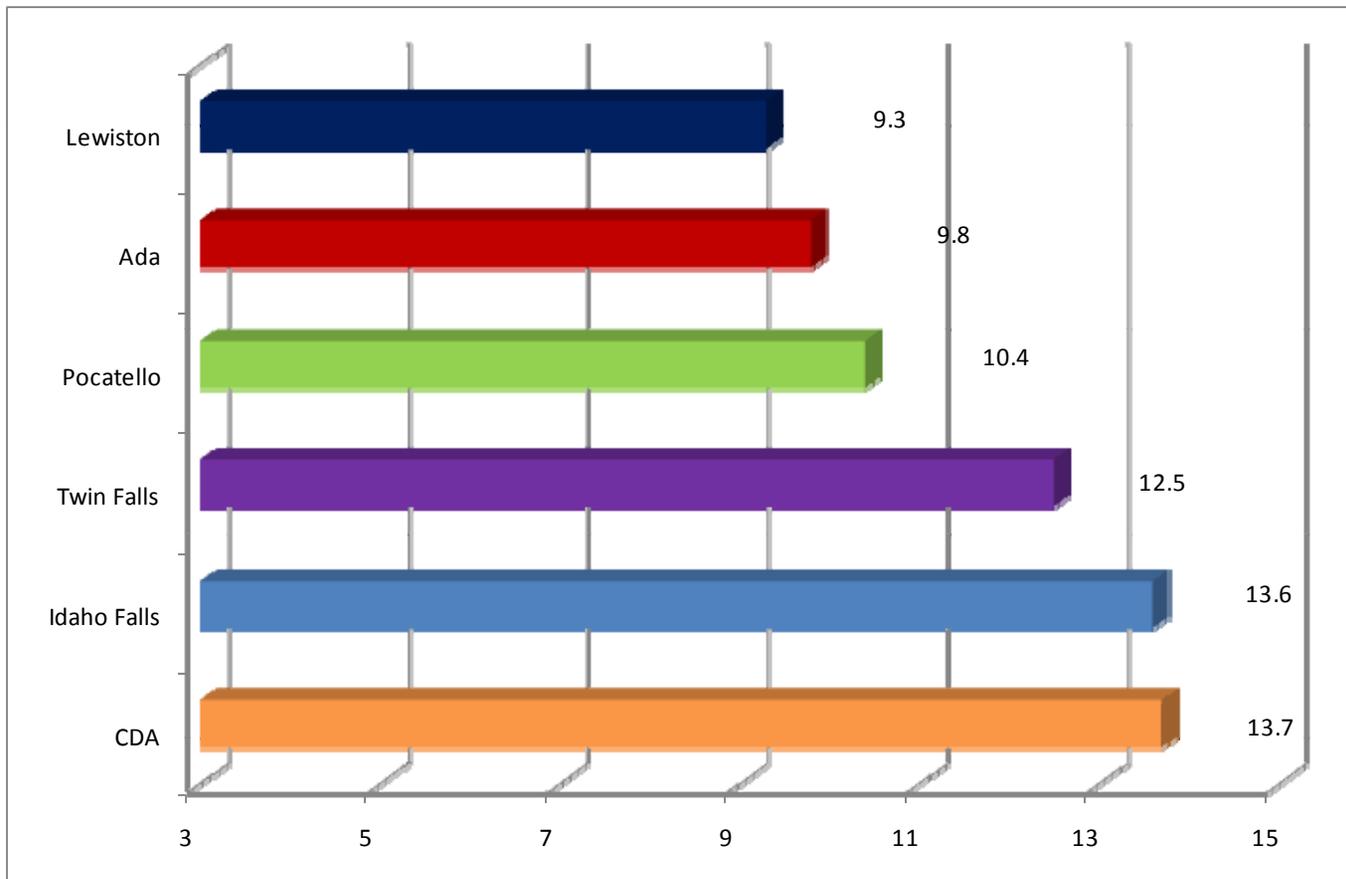




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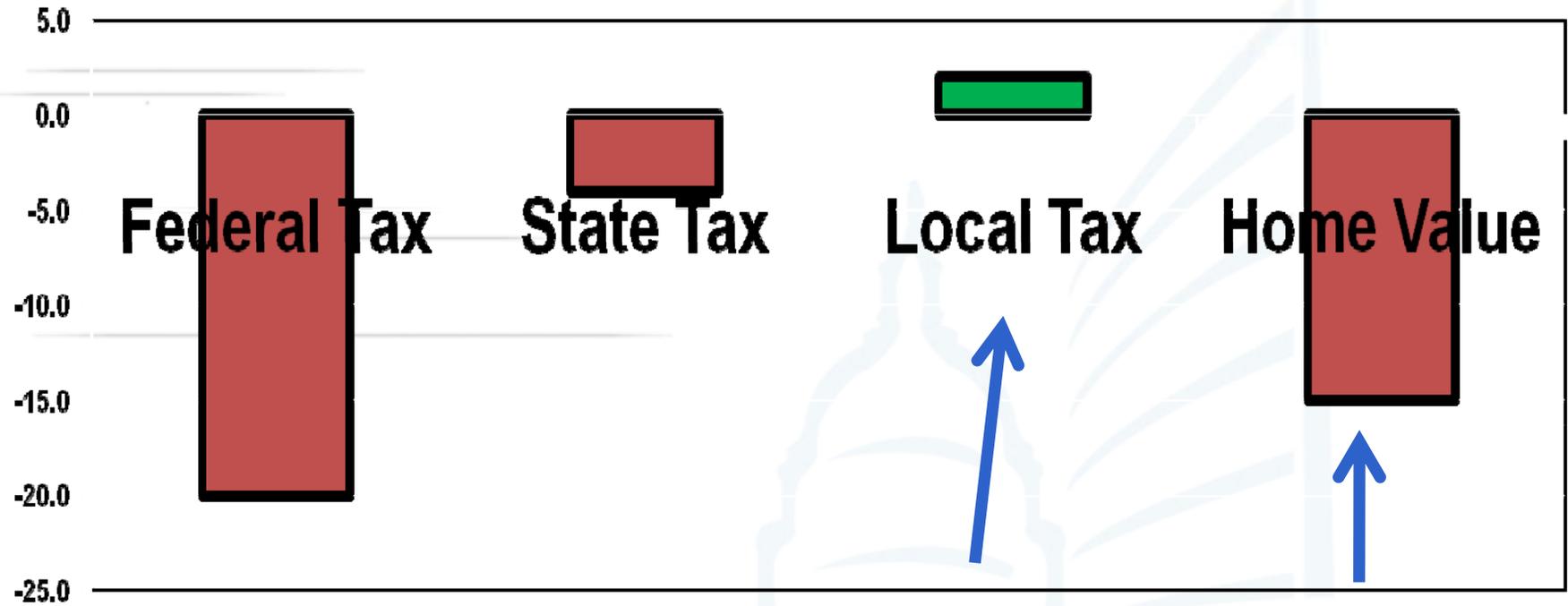
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Absorption Rates in Idaho



Tax Revenue Collections

(4-quarter change as of 2009 Q1)



Tax Assessors and Appraisers need to meet



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LOCAL GOVERNMENT REVENUE INCREASES

KEY STATE ECONOMIC INDICATORS - 10 YEAR TRENDS

	2002	2003	2004	2005	2006	2007	2008	2009	Est. 2010	Est. 2011
Population (2008 Census estimate 1,523,816) (Calendar Year, thousands) ⁴ <small>page 30-31</small> % Change	1,342.0	1,365.5	1,391.0	1,423.8	1,461.4	1,496.0	1,523.1	1,536.9	1,552.1	1,578.3
Inflation (Calendar Year CPI) ⁴ <small>page 23</small>	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	4.3%	-0.4%	1.4%	2.2%
Non-farm Personal Income - current \$ Calendar Year, \$millions, ⁴ <small>page 6</small> % Change	\$33,848	\$35,259	\$38,226	\$41,040	\$45,183	\$47,696	\$48,735	\$47,948	\$49,032	\$50,897
Farm Personal Income - current \$ Calendar Year, \$millions, ⁴ % of Total % Change	\$1,068	\$823	\$1,333	\$1,175	\$1,090	\$1,535	\$1,664	\$996	\$1,100	\$1,184
Total Idaho Personal Income - current \$ Calendar Year, \$millions, ⁴ <small>page 6</small> % Change	\$34,916	\$36,082	\$39,559	\$42,215	\$46,273	\$49,231	\$50,399	\$48,944	\$50,132	\$52,081
Employment (Fiscal Year annual Average) ¹ % Change	645,436	650,149	660,583	685,405	707,827	724,569	724,319	704,994	686,864	694,944
Average Unemployment Rate (Fiscal Year) ¹	5.2%	5.2%	5.0%	4.3%	3.6%	2.9%	3.7%	6.5%	8.6%	7.9%
Individual Income Tax Collections Net of Refunds, Fiscal Year, \$millions, ^{2,3} % Change	\$842	\$844	\$908	\$1,051	\$1,223	\$1,407	\$1,438	\$1,176		
Corporate Income Tax Collections Net of Refunds, Fiscal Year, \$millions, ^{2,3} % Change	\$77	\$94	\$104	\$141	\$198	\$188	\$190	\$142		
Sales Tax Collections Net of Refunds, Fiscal Year, \$millions, ^{2,3} % Change	\$788	\$836	\$1,029	\$1,119	\$1,064	\$1,268	\$1,310	\$1,195		
Local Property Taxes Previous Calendar Year, \$millions, ² % Change	\$949	\$1,021	\$1,081	\$1,141	\$1,239	\$1,098	\$1,218	\$1,316		
Other State Tax Collections * Net of Refunds, Fiscal Year, \$millions, ² % Change	\$403	\$406	\$491	\$469	\$479	\$516	\$514	\$484		
Total Major State/Local Taxes Net of Refunds, Fiscal Year, \$millions, ^{2,3} % Change	\$3,059	\$3,201	\$3,613	\$3,920	\$4,202	\$4,477	\$4,690	\$4,313		
Revenues to General Fund Fiscal Year, \$millions, ^{2,3} % Change	\$1,690	\$1,751	\$2,084	\$2,268	\$2,431	\$2,812	\$2,910	\$2,466		

* Other State Tax Collections include: Motor Fuels Tax, Cigarette & Tobacco Tax, Beer and Wine Tax, Insurance Premium Tax, Kilowatt Hour Tax, Liquor Dispensary Profits, Treasurer's Interest Earnings and Miscellaneous Receipts and

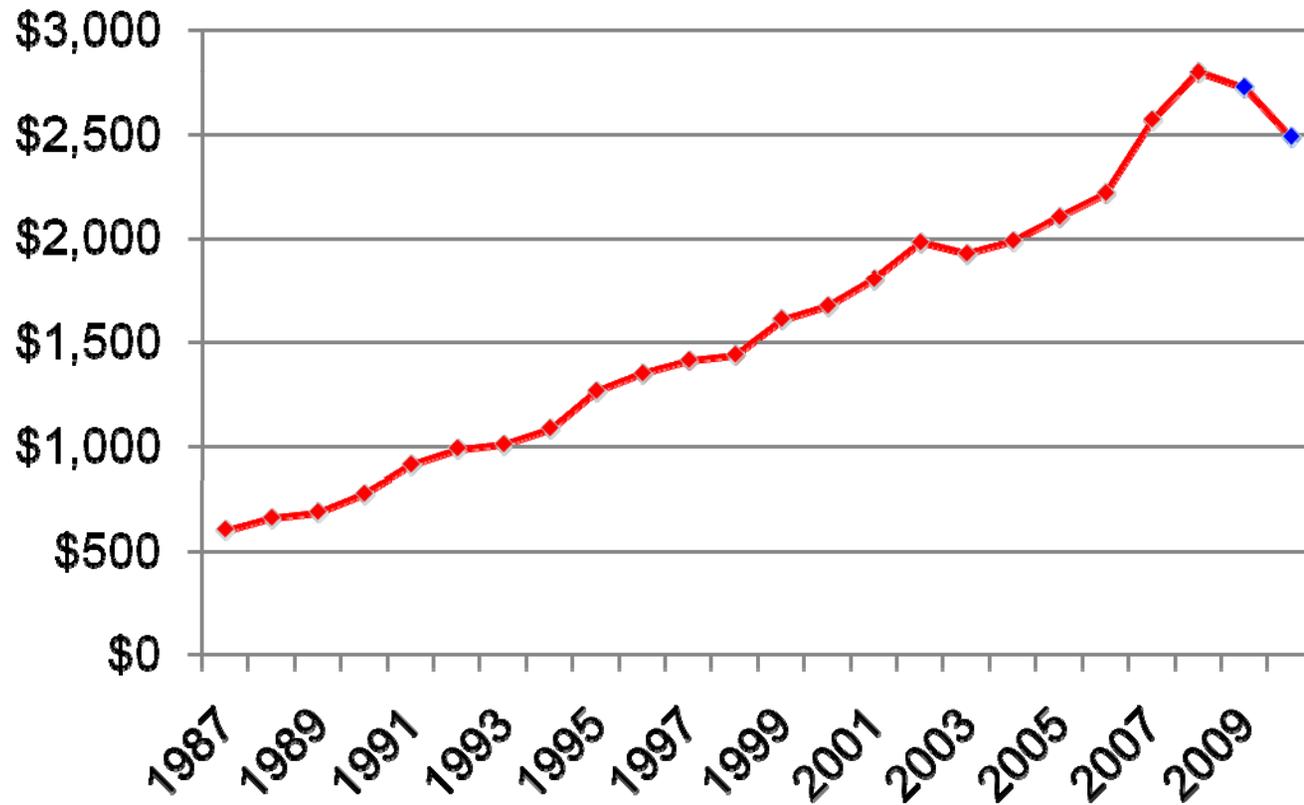
Sources: ¹ Idaho Department of Labor, December 2009 FY 08-09 Preliminary, FY 10-11 Projected
² State Tax Commission
³ General Fund Revenue Book, Division of Financial Management
⁴ Idaho Economic Forecast, Division of Financial Management, October 2009



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1987-2010 Idaho State General Fund Growth \$ in Millions





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THE ROLE OF THE IDAHO LEGISLATURE

- Implement an Idaho version of Utah's Home Run program to incentivize investment in the marketplace.
- Cap the Homeowner's Exemption.
- Change law with regard to when you get homeowners exemption.
- Keep an eye on other states with regard to economic development and tax policy. Compete nationally.
- Do not increase the burden on an already struggling industry.



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Home Run Program

- State grants to buyers who purchase a property that has never been lived in.
- First round in Utah was 1600, \$6000 grants.
- Program utilized \$10 million to leverage \$376 million in new home sales in only 90 days.
- Burned through half of their vacant inventory.
- Second round was 2000, \$4000 grants.
- Very successful in helping to halt further construction job losses.



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“As a taxpayer, I appreciate the efficiency and transparency of this program. Immediately after the first round of grants were awarded—just 90 days later—a study confirmed the economic benefits of the program: 7,205 jobs were created, producing \$239.9 million in wages. This \$10 million dollar program also generated \$20 million in taxes. Taxpayers saw the results of the program within months. Rarely does a government program run with such efficiency and transparency.”

- *Scott Parsons, Vice Chair of the Salt Lake Chamber*



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Stabilizing the construction industry is important to the future economy.



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US Population Will Continue to Grow

- Today – 300,000,000
- 2040's – 400,000,000



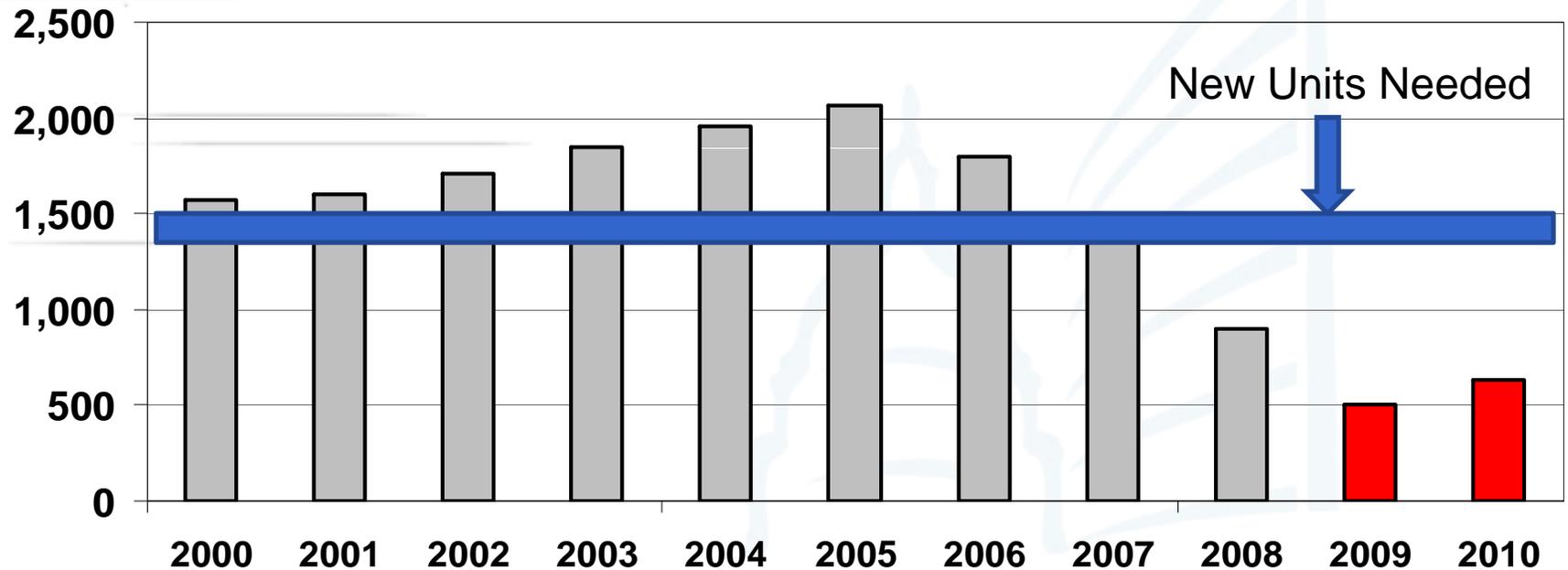
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As Population Grows, So Will Demand

- Brookings Institute: 59 million homes by 2030, or 2.67 million homes per year.
- Virginia Tech: 70 million homes by 2040, 2.19 million homes per year.

Housing Starts: Too Much to Too Little



3 million more people each year ... 1 to 1.4 million household formation
... need to account for 300,000 demolitions need 1.3 to 1.7 new units





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U.S. HOME CONSTRUCTION

- How many are we building?
- Less than 1 million per year.
- If we do not find ways to incentivize the market, we will be faced with the same supply and demand issues that lead to the run up in 2004 and 2005.



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Cost of an Idaho Program?

- IAR estimates there are approximately 1300 qualifying homes on the market.
- A \$4000 grant program in Idaho would cost about \$2.4 million in order to achieve similar results as Utah.
- Program more than pays for itself through increased tax revenue.
- Good idea that is searching for a funding source.



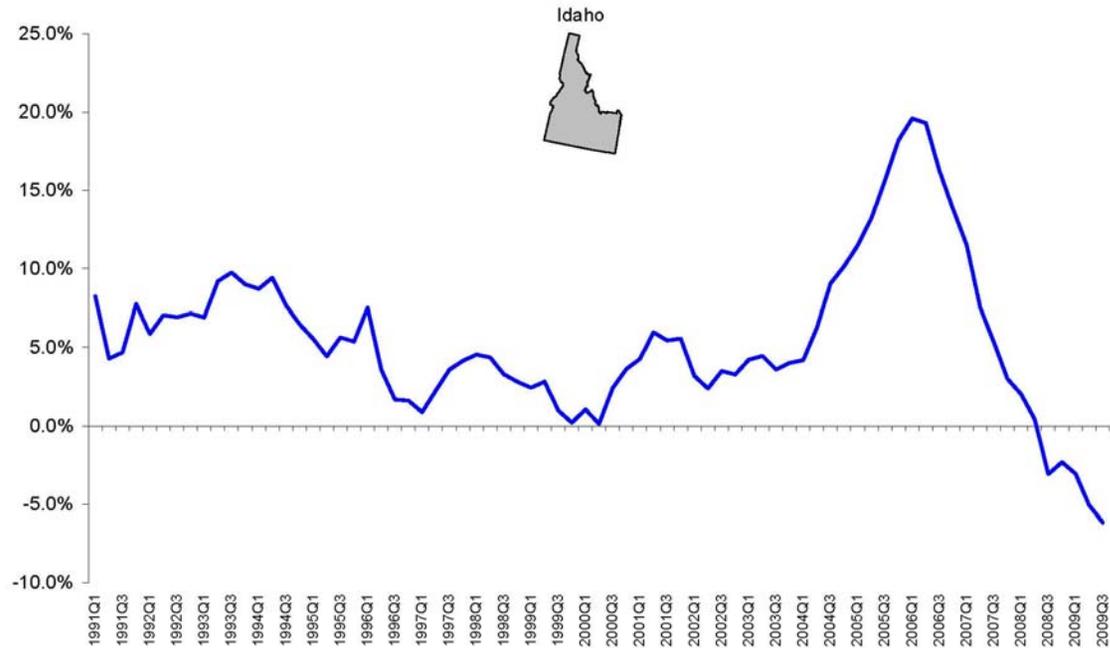
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HOUSING PRICE INDEX

Four-Quarter Appreciation: 1991Q1 - Present

Calculated using Purchase-Only Index





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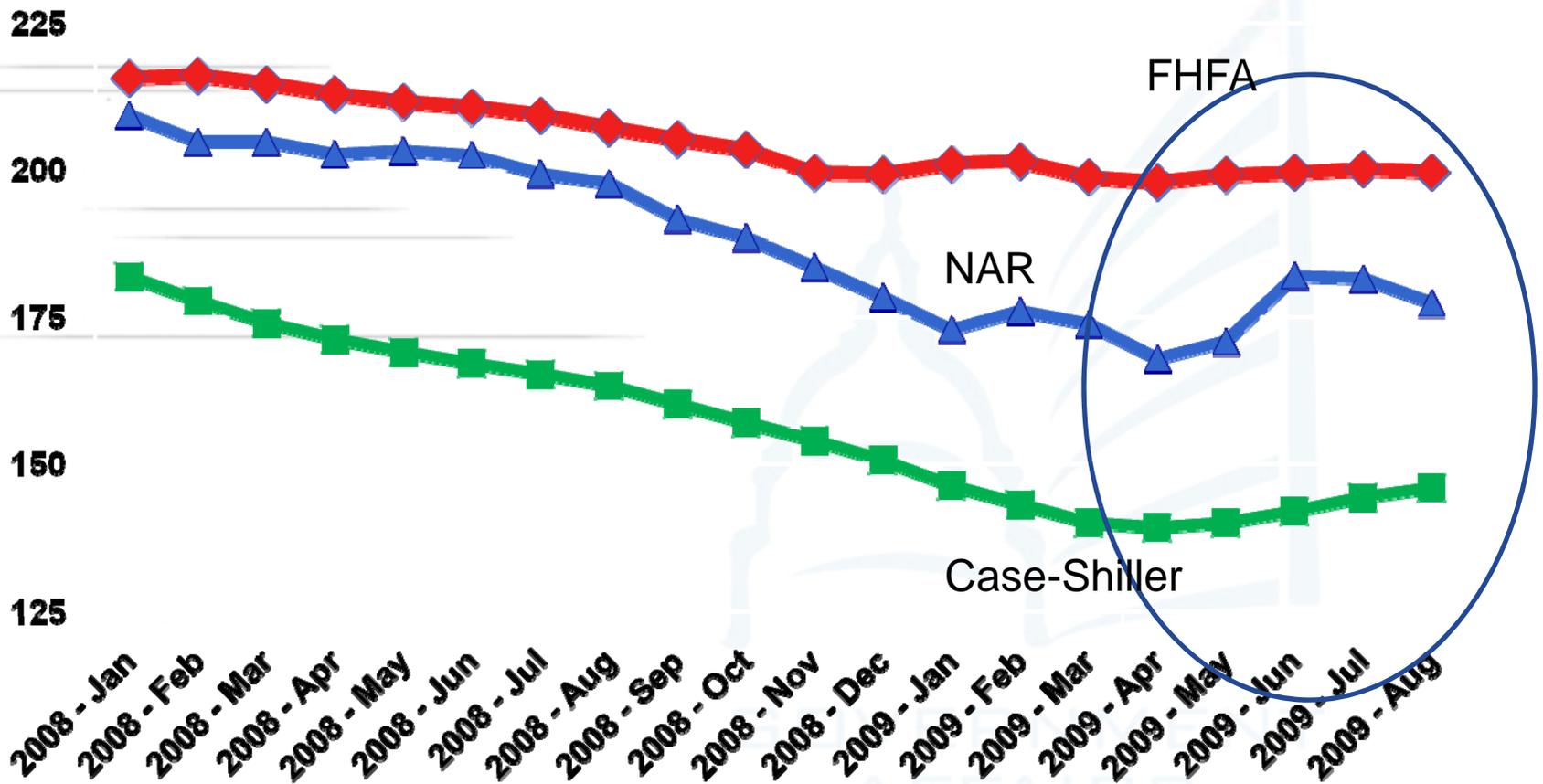
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HOUSING PRICE INDEX

- Current scheme introduces too much uncertainty into the marketplace with regard to property tax rate. Larger impact in low value and rural areas.
- For the first couple of years the HPI shifted taxes to businesses, now it is shifting back to homeowners.
- The HPI is the least reliable of the three indexes.
- Rate lags behind due to when taxing dates are set.
- The statute was so poorly written that the Legislature has already had to fix the language in the original bill, and you are going to have to go back and fix it again.
- Legislature should set a number so the Exemption doesn't fluctuate.

Latest Monthly Home Price Trend

Case-Shiller, Govt (FHFA), NAR ... Seasonally Adjusted Data





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Statute cites federal agency that no longer exists...

63-602G.PROPERTY EXEMPT FROM TAXATION -- HOMESTEAD. (1) During the tax year 2006 and each year thereafter, subject to annual adjustment as provided herein, the first seventy-five thousand dollars (\$75,000) of the market value for assessment purposes of the homestead as that term is defined in section 63-701, Idaho Code, or fifty percent (50%) of the market value for assessment purposes of the homestead as that term is defined in section 63-701, Idaho Code, whichever is the lesser, shall be exempt from property taxation. Beginning for tax year 2007, the state tax commission shall publish adjustments to the maximum amount subject to property tax exemption to reflect cost-of-living fluctuations. The adjustments shall effect changes in the amount subject to tax exemption by a percentage equal as near as practicable to the annual change in the **Idaho housing price index as determined by the United States office of federal housing enterprise oversight**. The state tax commission shall publish the adjustments required by this subsection each and every year the office of federal housing enterprise oversight announces a change in the Idaho housing price index. The adjustments shall be published no later than October 1 of each year and shall be effective for claims filed in and for the following property tax year. The publication of adjustments under this subsection shall be exempt from the provisions of chapter 52, title 67, Idaho Code, but shall be provided to each county and to members of the public upon request and without charge.



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HOUSING PRICE INDEX The Bottom Line...

- Adding the HPI to the Homeowner's Exemption was a poorly conceived, poorly executed plan that has hindered economic development and market certainty in Idaho. The HPI should be repealed and a flat number should be adopted.



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Also need to change the statute so that all buyers can take advantage of the HOE

63-602G (2) The exemption allowed by this section may be granted only if:

(a) The homestead is owner-occupied and used as the primary dwelling place of the owner as of **January 1**, provided that in the event the homestead is owner-occupied after **January 1 but before April 15**, the owner of the property is entitled to the exemption.



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WE WILL DO OUR PART

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.