

**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 accounted for 17.9 percent of the Idaho Gross State Product in 2009.



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

NAICS Code	Industry Sector*	2009		2010		2009-2010 \$ Change	2009-2010 Percent Change	2009-2010 Annualized Percent Change	2009-2010 % of Total Change
		\$ Am	% of Total	\$ Am	% of Total				
187	Health Care and Social Assistance	1,811	5.7%	4,082	7.6%	2,271	125.4%	8.2%	1.0%
188	Professional and Technical Services	1,782	5.4%	1,826	3.3%	44	2.5%	8.2%	1.0%
189	Finance and Insurance	1,223	3.7%	2,278	3.7%	1,055	86.2%	9.0%	1.0%
199	Rent, Less, Rental, and Leasing	3,710	11.4%	4,827	12.8%	1,117	30.1%	8.4%	1.0%
191	Administrative and Support Services	443	1.3%	1,138	2.9%	695	156.9%	8.1%	0.8%
192	Information	381	1.1%	751	1.9%	370	97.1%	14.7%	0.7%
170	State, Fed & Local Government	4,710	14.4%	7,987	14.8%	3,277	69.6%	3.4%	0.1%
168	Educational Services	112	0.3%	357	0.9%	245	218.7%	11.2%	0.2%
130	Information	495	1.5%	1,118	2.9%	623	124.8%	11.2%	0.7%
171	Arts, Entertainment and Recreation	254	0.8%	454	0.9%	200	78.7%	8.3%	0.5%
174	Accommodation and Food Services	877	2.7%	1,440	2.7%	563	64.2%	3.1%	0.0%
118	Other Services	501	1.5%	851	1.6%	350	70.0%	1.2%	-0.1%
162	Management of Companies	501	1.5%	743	1.4%	244	48.7%	4.0%	-0.1%
136	Transportation & Warehousing	1,033	3.2%	1,583	2.9%	550	53.4%	4.4%	-0.2%
177	Other Services	887	2.7%	1,381	2.4%	494	55.7%	3.8%	-0.3%
134	Wholesale Trade	1,166	3.6%	2,188	3.2%	1,022	87.6%	4.4%	-0.2%
181	Agriculture, Forestry, Fish and Hunting	1,781	5.4%	2,431	4.5%	650	36.5%	3.2%	-0.9%
135	Retail Trade	2,905	8.9%	4,176	1.0%	1,271	43.7%	4.0%	-0.3%
111	Construction	2,158	6.5%	2,714	3.1%	556	25.8%	2.8%	-1.0%
112	Manufacturing	1,131	3.4%	1,661	1.0%	530	46.8%	3.9%	-0.4%
<b>Total Gross State Product</b>		<b>32,708</b>	<b>100%</b>	<b>34,006</b>	<b>100%</b>	<b>1,298</b>	<b>3.9%</b>	<b>3.1%</b>	<b>0.0%</b>
<b>Real Growth in GDP</b>		<b>21,541</b>		<b>20,138</b>		<b>14,759</b>	<b>68.5%</b>	<b>3.1%</b>	
<b>Inflation GDP Deflator</b>								<b>1.0%</b>	



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### More Idaho Homes Sold in 2010

- 8.2% increase in Ada County
- 29% increase in Canyon County
- 38% increase in Twin Falls area
- Number of homes sold comparable to 2001/2002



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## **However, prices continue to decline...**

- Ada County Avg. Price down 5.3% to \$185,318
  - \$155,000 median
- Canyon County Avg. Price down 5.1% to \$108,661
  - \$93,266 median
- Twin Falls Avg Price down 1.4% to \$135,939
  - \$125,000 median
- For the second year, more houses are selling, but for less money.



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## **A large percentage of home sales are distressed properties**

- Ada County:
  - Short Sale/Foreclosure: 17% of sales
  - REO: 30.14% of sales
- Canyon County:
  - Short Sale/Foreclosure: 16.7% of sales
  - REO: 51.4% of sales
- Twin Falls Avg Price down 1.4% to \$135,939
  - Short Sale/Foreclosure: 5.54% of sales
  - REO: 25.6% of sales



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## **IAR MEMBERSHIP**

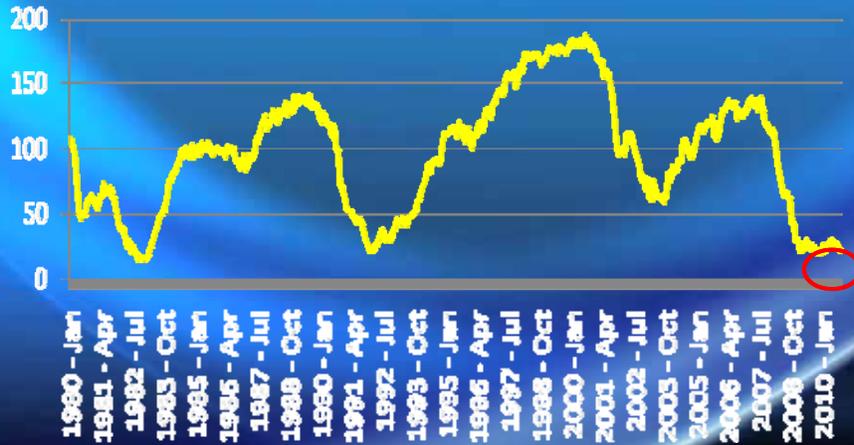
- Home sales at 2001/2002 levels
- Number of REALTORS® is closer to 2005 levels.

# Recovery to Normalcy

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

Presentation at NAR Annual Meetings  
New Orleans, LA  
November 5, 2010

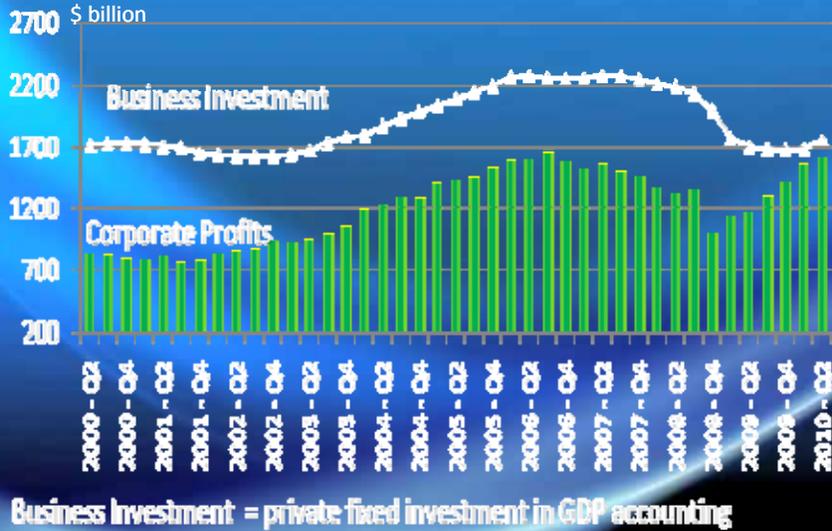
## Consumer Confidence on Present Conditions: Awful



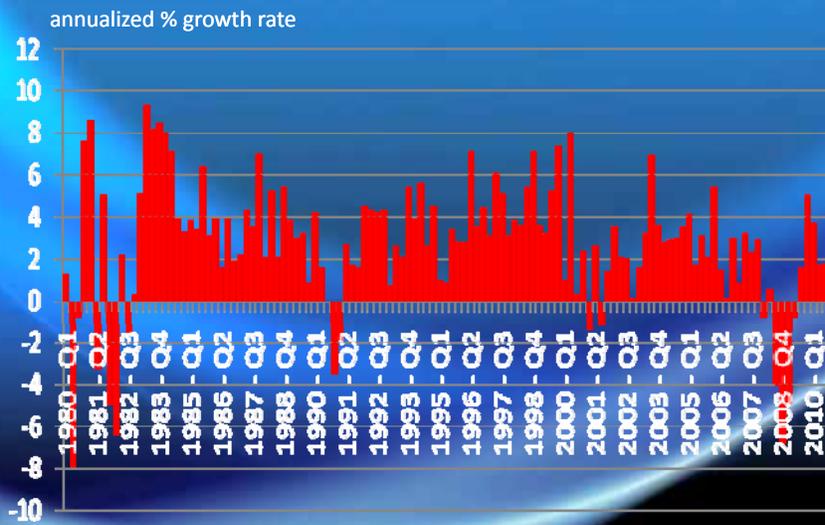
## Consumer Confidence on Future Conditions: Not Good but Not as Bad



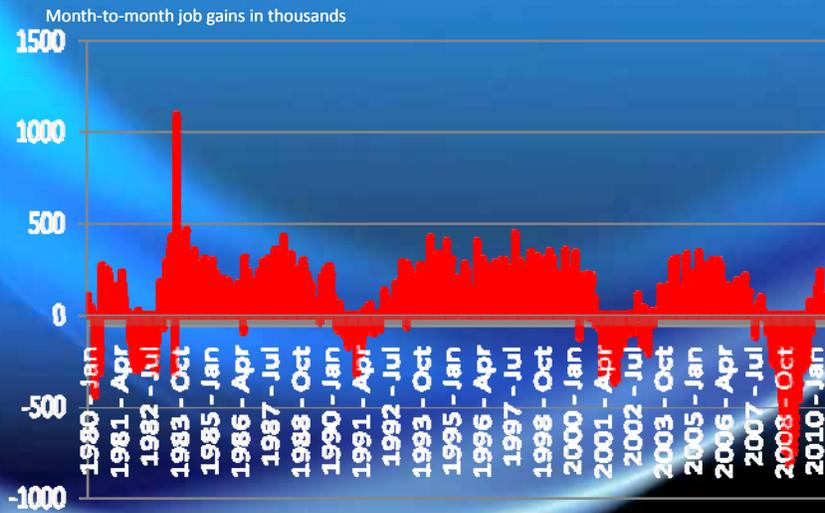
## Business Spending Shows Weak Confidence in Relation to Profits



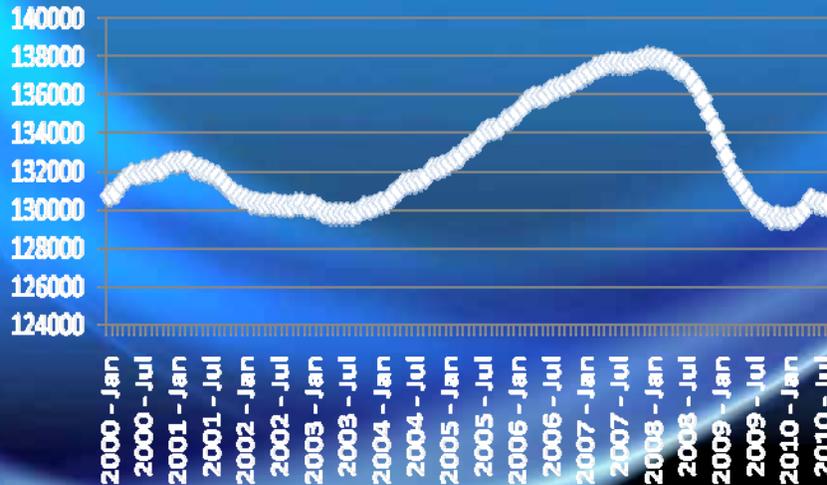
## GDP Growing, but Without Vigor



## U.S. Private Sector Job Gains (863,000 from Jan. to Sep. 2010)



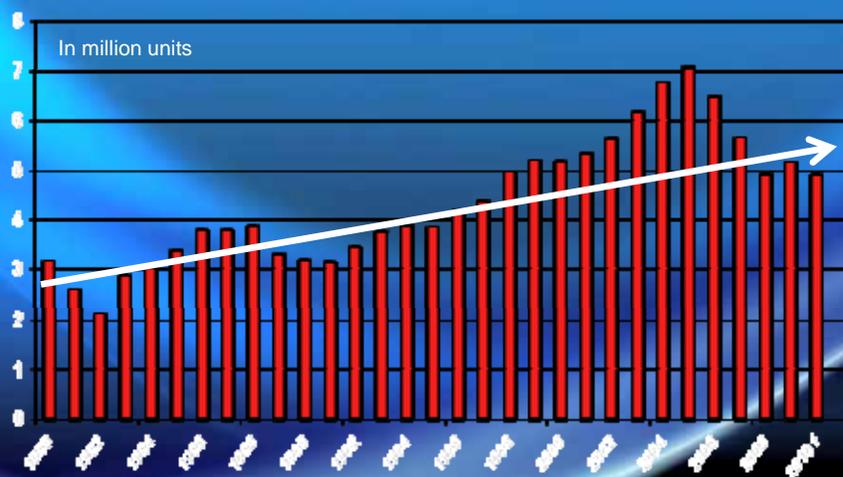
## Total Payroll Jobs in the U.S. (same as in 2000, but with 30 million more people)



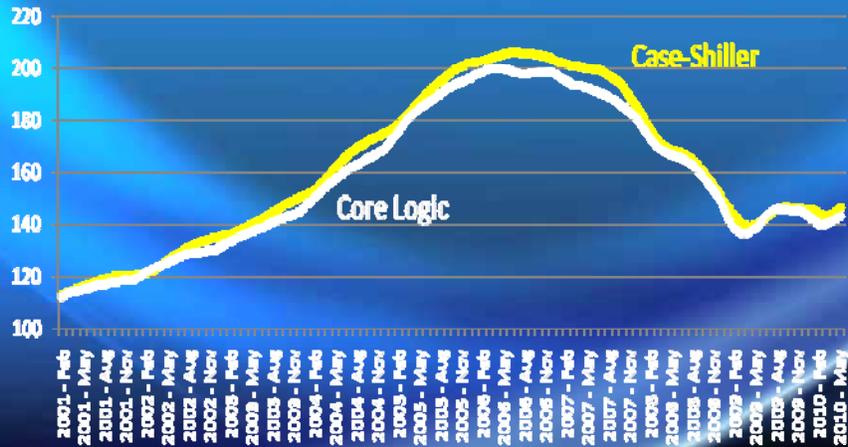
## How Many Years to Get Job Market Back to Normal?

Jobs added per month	Assumed new jobs needed for growing population per month	How many years?
100,000	100,000	Treading water and never back to normal
200,000	100,000	6.3 years
300,000	100,000	3.2 years
400,000	100,000	2.1 years

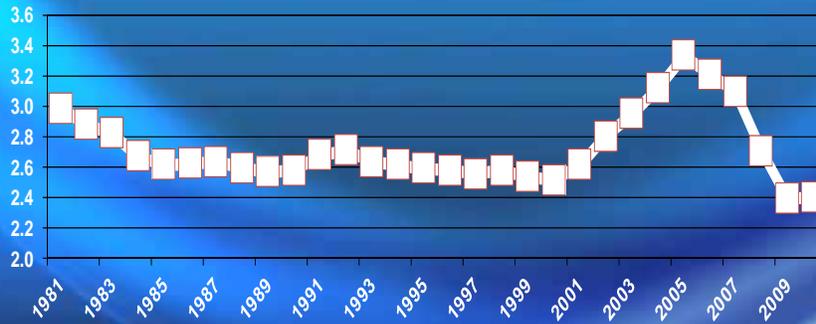
## Existing-Home Sales



## Other Home Price Measurements also Showing Price Stabilization



## Home Price-to-Income Ratio (No Bubble)



Source: NAR

## Compelling Affordability

Monthly Mortgage to buy a Median Priced Home

	2005 Q2	2010 Q2
San Diego	\$ 2,833	\$ 1,564
Miami	\$ 1,726	\$ 853
Milwaukee	\$ 1,014	\$ 797
Kansas City	\$ 735	\$ 600

## Economists Expect Price Increases in Upcoming Years

- Macromarkets, a firm associated with Professor Robert Shiller, surveys about 100 economists about home price outlook.
- The consensus forecast as of August 2010 (which can be found from Macromarkets or from news media stories such as Wall Street Journal) are for
  - 0.78% price increase in 2011
  - 2.43% price increase in 2012
  - 3.20% price increase in 2013
  - 3.69% price increase in 2014
  - No forecast for 2015 and beyond

## Baseline Outlook

- Moderate GDP Expansion 2 to 2.5% in the next 2 years (historical average is 3%)
- 1.5 million annual job additions in the next 2 years
- Unemployment rate of 8% in 2012 ... and normal 6% in 2015

## Baseline Outlook Cont'd

- Mortgage Rates rising to 5.0% in 2011 and 5.9% in 2012
  - People fussing about home values could miss out on low rates
- Home values – no meaningful change in the national price in the next 2 years
- Home sales to be choppy, but overall improving, in line with job growth ... 5.2 million in 2011 (up from 4.8 m in 2010, but same as in 2000)
  - Affordability conditions are too compelling
  - There may be some pent-up demand. 30 million additional people compared to 2000, but same number of home sales as in 2000.



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## **IDAHO HOUSING BASELINE**

- REALTORS® are active and working.
- Prices are down, but sales are moving up.
- Excess of stock in major markets.
- Much of the inventory is distressed housing.
- Idaho will likely lag behind the national recovery in housing sector.
- Expect flat growth for budgeting purposes. Likely won't see 2005 level for two to four more years.



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## **IDAHO RECOVERY: IT'S ALL ABOUT JOBS**

- Businesses nationwide are not investing in new employees.
- Business spending will not recover without more certainty in the marketplace.
- The real estate sector will not expand without new job creation.
- New jobs equal more demand for housing, more consumer confidence and more mobility.
- Some of the solutions are beyond our control, but there are areas we can focus on to give Idaho an advantage in the job market.



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## **UNCERTAINTY IN THE NATIONAL MARKETPLACE**

- Federal tax policy is not stable.
- Increasing deficit/debt has a drag on economy.
- Health Care bill a major concern for business expansion in general, and specifically for the construction and real estate industries.
- New banking regulations.
- Cap and Trade.
- Mortgage Interest Deduction – 15% reduction in home values.
- Reckless spending and debt at the state level will require large reductions in state spending or higher taxes. Who picks up the cost?



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## **BUSINESS SPENDING**

- \$1 Trillion in cash reserves. (From CNN and Moody's report)
- Partly due to uncertainty regarding future liabilities.
- Partly due to lack of a perception of need for products (low consumer confidence).
- Partly due to high debt ratios in non-financial sectors. Debt securities with feds and others.
- There is pressure to invest.
- Stock buybacks, mergers and dividend increases are on the rise.
- Lower unemployment (job creation through business investment) translates to more job security, which translates to higher consumer confidence.



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## **THE ROLE OF THE IDAHO LEGISLATURE**

- While many of the challenges occur at a federal level, Idaho is well positioned to take advantage of recovery.
- Focus on business recruitment and incentives.
- Make sure our fundamentals are sound and maintain certainty to encourage investment.
- Prioritize investments.
  - Energy capacity, transportation capacity, economic diversity, education, tax policy.



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## **THE ROLE OF THE STATE**

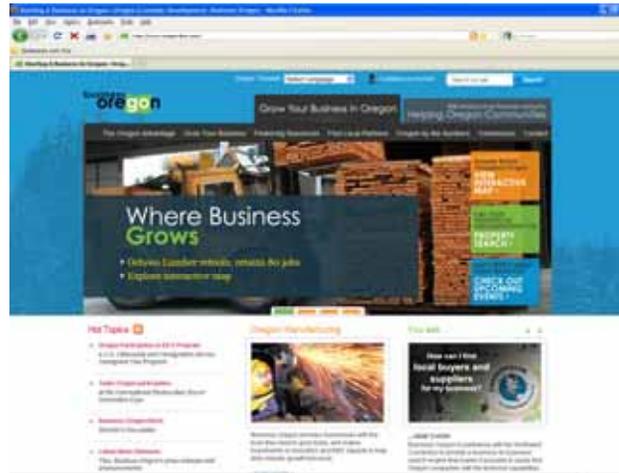
- State led process through Department of Commerce working in concert with local economic development agencies.
- One stop shop for businesses looking to expand or relocate.
- Better information about tax structure.
- New incentives.



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## STATE LEADERSHIP



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## COMPETE NATIONALLY





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## TENNESSEE EXPERIENCE

- **Reduce red tape** – Executive order created the Jobs Cabinet to reduce red tape and bureaucratic turf battles and to give companies a single point of contact on projects. respond to requests for help within 72 hours.
- **One size does NOT fit all** – Each company is unique, with a unique competitive environment and business needs that may not apply to everyone. Be flexible enough to craft a solution to fit a company's needs.
- **Job creation is a partnership** – Job creation is a shared responsibility between the state and the local community. Tennessee is taking the lead in helping local communities create strategic plans and build the infrastructure for economic development, then partnering with them to successfully execute job creation strategies.
- **Look to the future** – In a changing economy, create tax credits for emerging industries. Investing in education to create a ready workforce for the jobs of tomorrow.



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## TENNESSEE RESULTS

- Relocation and expansion projects in Tenn. resulted in more than 190,000 new jobs and more than \$33 billion in new capital investment in the first 6 years of the program.



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## IDAHO INCENTIVES

- Businesses that invest a minimum of \$500,000 in new facilities and create at least 10 new jobs averaging \$40,000 annually, plus benefits, may qualify for a variety of incentives. Qualifying companies receive:
  - an enhanced Investment Tax Credit of 3.75% up to \$750,000 OR 62.5% tax liability in any one year
  - a new jobs tax credit starting at \$1,500 and climbing to \$3,000 per job
  - a 2.5% real property improvement tax credit up to \$125,000 in any one year along with a 25% rebate on sales tax paid on construction materials for the new facilities
  - upon request of the company respective county commissioners may also authorize a full or partial property tax exemption



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## ONE POSSIBLE IDEA

- **Headquarters Relocation Expense Credit:** Companies establishing a qualified headquarters facility may also qualify for credits against their F&E tax liability based on the amount of qualified relocation expenses incurred in the establishment of a headquarters facility. This is a fully refundable tax credit.
- “Qualified headquarters relocation expenses” are those expenses that both the Commissioner of Revenue and Commissioner of Economic and Community Development determine, in their sole discretion, are necessary to relocate headquarters staff employees to a qualified headquarters facility in conjunction with the initial establishment of such facility.
- The taxpayer must file and receive approval of the Qualified Headquarters Business Plan with the Department of Revenue before claiming the Headquarters Relocation Expense Credit.
- Relocation Expense Credits are limited to the qualified expenses actually incurred. The Company may start to take Relocation Expense Credits in the first year it incurs qualified relocation expenses up to the amount allowed as a Relocation Expense Credit for that year.



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## **ONE POSSIBLE IDEA, Cont.**

- **Relocation Expense Credit** is determined and calculated by the number of existing qualified headquarters positions relocated to Tennessee as follows:
  - Headquarter Jobs Relocated Amount Per Position 100-249 jobs
  - \$10,000 per position
  - 250-499 jobs
  - \$20,000 per position
  - 500-749 jobs
  - \$30,000 per position
  - 750 or more
  - \$40,000 per position
  - \$1 billion investment
  - \$100,000 per position



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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.