



Idaho Association of REALTORS®

**Presentation to the 2012 Joint Legislative
Economic Outlook and Revenue Assessment
Committee**

prepared by

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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 16.6 percent of the Idaho Gross State Product in 2010.
- Historically that number is closer to 18 percent.
- 2011 performed better than 2010, so we would expect to see that number edge back up.



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More Idaho Homes Sold in 2011

- 8.5% increase in Ada County (8.2% in 2010)
- 9.5% increase in Canyon County (29% in 2010)
- Number of homes sold comparable to early 2000's



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However, prices continue to decline...

- For the third year, more houses are selling, but for less money.
- The number of sales keeps going up each month, as do pending sales, while inventory keeps going down. Typically this would indicate prices would improve and illustrate there is demand, but distressed properties continue to weigh on prices.



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A large percentage of home sales are still distressed properties

- Ada County:
 - 47 % distressed (57%in 2010)
 - 55% REO, 45% short sale
- Canyon County:
 - 74% distressed (78% in 2010)
 - 67% REO, 33% short sale
- Twin Falls County:
 - 33% distressed (fairly steady)
 - 88% REO, 12% short sales



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IAR MEMBERSHIP

- Number of REALTORS® is close to 2005 levels.
- Has remained relatively stable for the first time in four years.



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IDAHO HOUSING BASELINE

- REALTORS® are active and working.
- Prices are down, but sales are moving up.
- We have seen a marked decrease in inventory levels.
- Many properties are receiving multiple offers.
- More new construction than we've seen in years.
- The percentage of distressed housing is moving down.
- In-migration continues to be an issue.
- Distressed properties continue to weigh on prices.
- Expect a small improvement for budgeting purposes if no harm is done to the industry.



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IDAHO RECOVERY: IT'S ALL ABOUT JOBS

- 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.
- The Legislature can play a key roll by empowering state government to take advantage of Idaho's good economic health to attract new businesses, and by maintaining a stable tax policy that does not harm the housing sector.



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THE ROLE OF THE IDAHO LEGISLATURE PART 1

- It is likely the Idaho Legislature will be dealing with budget surpluses in the coming years for the first time in quite a while. When you are making decisions about new funding for projects, rainy day accounts and tax cuts we encourage you to look at areas that will incentivize job creation as well. You have heard a lot about the personal property tax and our high corporate income tax, and we certainly support reducing or eliminating those taxes, but there are also some other areas where the legislature can act.
- We encourage you to invest in the Department of Commerce to expand their ability to respond to businesses inside and outside of Idaho. We also encourage you look at the success stories of states that have been highly active in business recruitment.



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FOUR IDEAS

- **Reduce red tape** – Some states have created a “Jobs Cabinet” to reduce red tape and bureaucratic turf battles and to give companies a single point of contact on projects. This group should respond to requests for help within 72 hours of initial contact. This type of “one stop shop” approach can be beneficial to both existing and new businesses.
- **Recognize that one size does NOT fit all** – Each company is unique, with a unique competitive environment and business needs that may not apply to everyone. The Idaho Legislature should provide flexibility to state and local economic development officers to craft a solution to fit a company’s needs.
- **Recognize that job creation is a partnership** – Incentivizing job creation is a shared responsibility between the state and the local community. The Legislature should empower the Department of Commerce to take the lead in helping local communities create strategic plans and build the infrastructure for economic development, then partner with them to successfully execute job creation strategies.
- **Look to the future** – In a changing economy, create tax credits for emerging industries. This could include a myriad of different ideas including something as simple as a moving tax credit. We should also prepare to invest in education to create a ready workforce for the jobs of tomorrow. We need to look no farther than the College of Western Idaho to see what an investment in education can do to change thousands of lives in Idaho.



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RESULTS

- By using these simple strategies many states have been successful in attracting new business investment. For instance, Tennessee estimates this approach helped attract 190,000 new jobs and \$33 Billion in new capital investments in the first 6 years of the program.



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THE ROLE OF THE IDAHO LEGISLATURE PART 2

- Maintain a stable tax structure that does not harm the real estate sector.
- For example, one proposal has been made would extend the sales tax to services at a rate of 5%.
- This proposal would have a devastating impact on housing and many other sectors.
- It would also discourage investment in job creation by Idaho employers and drive new jobs to other states.



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EXAMPLE

- Bankrate.com estimates there are approximately 20 services that would be taxed when a house is sold in Idaho.
- Estimated impact on a \$150,000 home would be approximately \$750.
- However, you also have to add in the cost on these businesses to collect and remit the tax. That will push the overall cost higher.
- Instead of the estimated \$15,000 it costs to close the home, the number will be higher in order to accommodate the increased costs. Just a 10% increase in fees would cost an additional \$1,500.
- This will drive the tax higher as well.
- The \$150,000 house suddenly becomes a \$152,257 house.
- You have also created thousands of new tax collectors for the state. This is not only an administrative nightmare, but will cost the state millions to audit.



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EVEN WORSE FOR NEW CONSTRUCTION

- Labor is usually around one-third of the cost of new home construction.
- Estimated impact on a \$150,000 home would be approximately \$2,500.
- However, you also have to add in the higher costs for closing of \$2,257.
- In addition, the Attorney General has issued an opinion that says the proposal may require the tax to be charged on the sales price of new construction. Cost would be \$7,625.
- The \$150,000 house suddenly becomes a \$162,382 house.



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SUMMARY

- The real estate economy is slowly improving.
- The Idaho Legislature can help by incentivizing job creation and avoiding the terrible pitfalls of a sales tax on services.
- 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.