

Pennsylvania House Commerce Committee

**Testimony provided by
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November 10, 2009

My name is Mike Garman, and I am president of Garman Builders, a company with 35 years of experience building in Lancaster County. I am a member of the Pennsylvania Builders Association, an 8,500-member statewide trade organization representing the interests of the housing industry, and I serve as chairman of the association's housing stimulus task force. I appreciate the opportunity to testify today regarding the primary issues that Pennsylvania's housing industry believes that the state government must address if we are to generate a sustained, robust economic recovery.

Pennsylvania Update

The homebuilding industry is a steady engine that drives a major portion of the economy in the commonwealth. In 2008, one of the worst years on record, there were 20,240 new homes built in Pennsylvania, representing a \$3.8 billion investment by homeowners. For every 1,000 homes constructed, the industry provides 2,448 jobs and about \$42.5 million in taxes and fees to federal, state and local governments (according to the Pennsylvania Department of Labor and Industry).

Unfortunately, that engine has stalled. This year, builders have filed permits for just 6,838 new homes, townhomes and modular homes from January to August. Since 1999, Pennsylvania homebuilders produced 17,000 to 23,000 homes a year during this eight-month period... until 2007, when the total reached 14,000. In 2008, it fell to 10,721. The climb to the peak was hardly comparable to the dramatic increases in homebuilding seen this decade in Georgia, California, Arizona and Nevada, but the losses are staggering. Based on the number of permits filed and state estimates of homebuilding jobs, Pennsylvania lost 32,000 homebuilding-industry related jobs by 2008, and 2009 has continued the trend.

The outlook for Pennsylvania housing has some positive elements, but areas of concern remain. First, excess inventory slows sales and drags down homeowners' equity. A combination of sinking appraisals and stingy mortgage underwriting has wrenched families hoping to move up to a home that will better meet their needs. Builders have seen the market for "55-plus" housing communities vanish, while lenders cut their ability to borrow for multifamily housing projects sorely needed by Pennsylvania's working families. Homebuilders increasingly feel that millions in federal stimulus, if not more, provided to the nation's leading banks is being withheld from builders whose businesses desperately depend on acquisition, development and construction loans. It's clearly time

to empower and prompt the banking industry to approve funding needed for this critical economic driver: the homebuilding industry.

The housing industry's struggles directly affect the operation of Pennsylvania's municipal governments. Construction activity contributes directly to the local economy through taxes and fees, and indirectly through taxes on dozens of workers who contribute to the completion of each new home. As construction activity has sagged since 2006, so did the revenue streams for many municipalities. A state-led economic stimulus will help municipal officials skirt the tough choices of tax increases or reduction in services resulting from drooping construction-related revenue. Foreclosed properties and plunging home values only make this problem worse for cities, boroughs and townships.

Pennsylvania Housing Support

It's time for action in Pennsylvania. We need tax incentives to support the vital residential construction industry like those proposed in the Housing and Economic Revitalization Act (HB 1776) introduced by Rep. John Bear, R-Lancaster.

The act would provide up to \$10,000 in tax incentives for those purchasing a new home. Studies have already shown how much positive effect federal tax incentives had for selling homes to first-time homebuyers.

Homebuilding could have been far worse in 2009, but Congress acted quickly in January to approve the First-Time Homebuyer Tax Credit, which breathed new life into an industry on the ropes.

The federal \$8,000 tax credit for new home sales led to 357,000 homes sold from Feb. 17 to Sept. 15, according to a study released in late September by Campbell Surveys of Washington, D.C. New home sales accounted for 42 percent of all home sales during the seven-month span, compared with 32 percent in the months prior to the introduction of the tax credit. The National Association of Realtors previously reported that the 2008 first-time homebuyers tax credit, which must be repaid, was responsible for 560,000 sales.

PBA and its national counterpart, the National Association of Home Builders, have joined to support real estate associations and other groups in advocating an extension and expansion of the First-Time Homebuyer Tax Credit. While we expect this extension to pass, it will not be sufficient to pull Pennsylvania's housing industry out of this recession. It's equally important to encourage homeownership and long-term residency with Pennsylvania's own tax incentives as a number of other states have done.

HB 1776 is what we need to provide this incentive while steadying and calming the housing market. For typical Pennsylvania homebuilders who construct fewer than 10 homes a year with a business volume under \$1 million in the best of times, it's a matter of necessity.

Home improvement incentives

In addition to the incentives for buying a new home, Rep. Bear's bill provides a \$5,000 tax credit for homeowners making a significant investment in home improvements that cost \$50,000 or more.

For many Pennsylvania residents, the economy has prevented the purchase of a move-up home that better meets their needs. For some of these families, remodeling or addition projects have become a practical alternative to buying a new home. Yet for many others, a pressing need for a kitchen update or more space for a growing family has gone unmet due to tight budgeting and eroding property values – which is why this bill's incentives for remodeling and addition projects are so needed. The \$5,000 tax incentive will be just what many families need to move them to action, allowing them to complete projects to make their homes more functional for their changing needs.

Stability for the housing market

As discussed earlier, Pennsylvania's housing market has experienced declining demand for new homes since 2007. Job losses and dwindling wages have contributed to home foreclosures and growing time on the market for any homes for sale. The real estate market experienced instability and many families have seen their equity sink, while a few are under water with mortgage debt higher than their home's value.

Rep. Bear's legislation offers a tax rebate of \$2,500 for the purchase of an existing home. Although this incentive is more modest than the rebate offered for purchasing a new home, it will help empower Pennsylvanians to become homeowners. The legislation will be a stabilizing force to help guide the housing market for two years as the economy and the industry recover.

Timing of the stimulus

Pennsylvania continues to exhibit a demonstrated need for this housing stimulus at a time when real relief for families continues to be distant. The housing market and its outlook have not rebounded in Pennsylvania, largely because industries, including housing, have not created jobs for those lost over the past four years.

Due to the passage of time, this legislation must be adjusted. It was written several months ago to provide incentives from July 1, 2009 to July 1, 2011. Two years is an appropriate schedule for housing stimulus, so we simply request that you amend the bill to adjust its timeline to provide these incentives from Jan. 1, 2010 to Jan. 1, 2012.

Conclusions

Congress and President Obama acted swiftly in the early weeks of 2009 to spur the stumbling national economy. We have seen the positive effects of this legislation in the homebuilding industry and other economic contributors.

In 2004, the U.S. Census Bureau estimated that nearly 1 million people worked in manufacturing and construction jobs in Pennsylvania. We have identified the struggles of

our industry and highlighted the need for continued support in Congress. Our workers' need your dedicated attention to these issues to preserve their jobs – and get some of those less fortunate back to work in homebuilding.

State support is clearly needed to bring the housing industry – and with it, the Pennsylvania economy – out of the doldrums. Please support House Bill 1776 to provide the stimulus that is desperately needed.