CoreLogic

Testimony of Dr. Mark Fleming, Ph.D

Chief Economist, CoreLogic

Before the U.S. House of Representatives Ways and Means Committee

Hearing on Tax Reform and Residential Real Estate

1100 Longworth House Office Building at 9:30AM

April 25th, 2013

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Chairman Camp, Ranking Member Levin, and distinguished members of the Committee on Ways and Means, CoreLogic appreciates the opportunity to submit this testimony regarding tax reform and residential real estate.

My name is Mark Fleming and I am Chief Economist for CoreLogic. CoreLogic is a leading global provider of consumer, financial, and property information, analytics and services to businesses and government. Our company combines public, contributory, and proprietary data to develop predictive decision analytics and provide business services that bring dynamic insights to our customers in the residential mortgage origination, securitization, and servicing markets as well as other private sector institutions and government.

CoreLogic's information resources include over 500 million historical real property and mortgage transaction records, monthly performance information on the vast majority of conforming as well as private label securitized loans, insights on a majority of loan applications being originated today, and the nation's largest contributory mortgage fraud database.

One of the brightest spots within the uneven economic recovery is the housing sector. Residential investment contributed 0.4 percentage points to GDP growth in Q4 2012, significant for a single industrial sector. In March 2013, residential investment continued to grow. Housing starts increased to an annualized rate of 1 million, which is 47 percent above the level for the same month a year earlier and the largest increase in more than 20 years. Home prices rose 10.2 percent year-over-year, the largest increase in nearly seven years. Home prices have been rising consistently since February 2012, and our pending HPI index indicates that price growth in March will continue the trend.

One of the features of the American Recovery and Reinvestment Act of 2009 was a first-time homebuyer tax credit aimed at stimulating the real estate sales market. In the first half of 2009, before the impact of the tax credit could be felt, home sales were declining at a rate of 15 percent from the prior year. However, by September 2009 sales were at the same level as the prior year and by November 2009 – the month of expiration – sales were up 34 percent from the prior year – a nearly 50 percentage point improvement in under a year. When the tax credit was extended to April 2010 sales increased at an average rate of 12 percent annualized until expiration of the credit. However, as soon as the tax credit expired the volume of home sales dropped, averaging a rate of 18 percent annualized for the remainder of 2010. Furthermore, prior to the expiration of the tax credit, expensive home sales increased more rapidly than low and moderately priced home sales. The tax credit stimulated current demand at the expense of future demand, but did not have a permanent impact on the market.

While the first-time home buyer tax credit resulted in homebuyers buying sooner than otherwise, the Tax Relief Act of 1997 causes a subset of sellers to defer sales to a later date. The Tax Relief Act of 1997 exempts from taxation the profits on the sale of a residence of up to $500,000 for married couples filing jointly and $250,000 for singles if the property has been a principal residence in 2 of the last 5 years of ownership. Since the Act's tax exclusion can only be applied if the owners have been living in the property for at least two years, the Act clearly applies to existing homes and not new homes, therefore the law only impacts existing home sales but not new sales. For the 5 years prior to 1997, the existing home sales share of total sales, new and existing sales combined, averaged 84 percent. However, as discussion of the Act became public, the share declined to below 83 percent as sellers waited for the law to be enacted so as to take advantage of the tax exclusion. After the law was enacted the share rose above the previous average for several months, before returning to its long-term average. In the case of first-time homebuyer tax credit and the capital gains tax exclusion, market participants changed their behavior in the short-term but it did not materially change the structure of the industry.

CoreLogic is thankful to the Committee for the opportunity to provide testimony on the meaningful impact that tax policy has on participants in the real estate market. As a provider of transparency-based information on the real estate and mortgage finance markets, we are encouraged by the Committee's recognition of how data and analytics can help inform a better understanding of the relationship between tax policies and the real estate market, especially as the housing market is once more contributing to our fragile economic recovery.