

The Role of Real Estate in Maryland's Economy



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Executive Summary

- Maryland’s real estate industry, which includes an array of real estate, finance and insurance services as well as construction activities, supported 502,000 jobs in 2006, approximately 20 percent of the state’s job totals.
- These real estate related jobs were associated with almost \$24 billion in wage/salary income, approximately \$47,000 per job.
- The industry’s operations supported over \$98 billion in business sales activity and were responsible for nearly one-quarter (23.0%) of the state’s total sales of goods and services.
- For every five jobs in the real estate industry, the multiplier effect adds another four jobs to Maryland’s economy.
- Although the real estate industry is responsible for about one-quarter of economic activity in the state, in fiscal years 2007 and 2008, it generated 45 percent of total County/City local government revenues in the form of real estate taxes—more than \$5 billion annually.
- Property value and real estate tax data in 2005 showed Maryland ranked 13th nationwide in terms of total real estate tax levels, with median real estate tax burdens of \$2,159 compared to the national median of \$1,614.

Economic impacts are summarized in Table E1.

Table E1: 2006 Real Estate Industry Impact

Type of impact by sector	Jobs	Income (millions)	Sales (millions)
Direct impacts			
Construction	193,012	\$9,076	\$33,362
Real estate (1)	61,234	\$3,137	\$23,000
Finance and insurance	20,742	\$1,607	\$4,438
Total industry	274,988	\$13,821	\$60,800
Indirect & induced impacts			
Construction	153,404	\$5,385	\$22,907
Real estate (1)	45,257	\$3,166	\$11,286
Finance and insurance	27,984	\$1,289	\$3,423
Total industry	226,645	\$9,840	\$37,616
Total impacts			
Construction	346,416	\$14,461	\$56,269
Real estate (1)	106,490	\$6,304	\$34,286
Finance and insurance	48,726	\$2,897	\$7,861
Total industry	501,632	\$23,661	\$98,416
Note. (1) Real estate includes workers and income captured by DLLR and Sage’s estimates of self-employed workers and their earnings. Sources: Maryland Department of Labor, Licensing, and Regulation, IMPLAN, Sage			

Fiscal Impacts

Though the industry is responsible for almost one quarter of the economic activity in Maryland, in fiscal years 2007 and 2008 it generated 45 percent of total County/City local government revenues in the state, more than \$5 billion annually. Table E2 provides associated statistical detail.

Moreover, in the last year for which comprehensive, comparable and reliable information is available, Maryland ranked 13th among U.S. states in terms of absolute real estate tax levels, with a median real estate tax burden of \$2,159 compared to the national median of \$1,614. Table E3 provides a listing of the 15 states with the highest real estate tax burdens in America.

Table E3: Property Values and Real Estate Taxes (RET) in 2005

State	Median Value of Homes	Median RET	RET Rank
1. New Jersey	\$333,900	\$5,352	1
2. New Hampshire	240,100	3,920	2
3. Connecticut	271,500	3,865	3
4. New York	258,900	3,076	4
5. Rhode Island	281,300	3,071	5
6. Massachusetts	361,500	2,974	6
7. Illinois	183,900	2,904	7
8. Vermont	173,400	2,835	8
9. Wisconsin	152,600	2,777	9
10. California	477,700	2,278	10
11. Washington	227,700	2,250	11
12. Alaska	197,100	2,241	12
13. Maryland	280,200	2,159	13
14. Pennsylvania	131,900	1,937	14
15. Texas	106,000	1,926	15

Source: housingeconomics.com

Table E2: Sources of Local Government Finance (\$ in millions) 2007-2008

Type of revenue (1)	Fiscal 2007		Fiscal 2008	
	Value	Share of total	Value	Share of total
County property tax (2)	\$5,256	45.1%	\$5,548	45.0%
County income tax	\$3,809	32.6%	\$3,992	32.4%
Other county revenue	\$2,600	22.3%	\$2,776	22.5%
Total county revenue	\$11,665	100.0%	\$12,316	100.0%

(1) Amounts are the average for all Maryland jurisdictions excluding Worcester, Somerset, and Queen Anne's counties. Comparative data from these counties were not readily available.
(2) County property tax values include real property, transfer and recordation taxes.
Sources: County government web sites, Sage.

Introduction

A Significant Sector

The impact of real estate related activity on Maryland's economy is significant, from the jobs it creates to the revenue it generates. Real estate's multiplier effect in terms of job creation is significant, as this study demonstrates. Additionally, real estate activity stimulates the economy in indirect ways as well, in the value added impacts of the purchase of goods and services that stem from real estate related businesses and real estate transactions, from copy paper to airline tickets to shingles for a new home.

Beyond the economic contribution of the jobs and transaction side of the industry, however, real property is a powerful engine for revenue generation, not only from taxes levied at the time of transaction, but from taxes assessed annually. Indeed, real estate as an annual revenue source is the single biggest income source for virtually all of Maryland's counties, in addition to the tax revenue it produces for the state and several localities.

The role of real estate in Maryland's economy is vital, in that it both feeds state and local economies and provides financing for essential public services. At the same time, ownership of real property, and particularly homeownership, does more than meet essential needs. It is a key factor in sustaining neighborhood and community stability. This is indeed an extraordinary value.

This report details the economic impacts of the real estate industry in Maryland in 2007, a year of ongoing transition across the state. Even in the midst of a housing downturn, the central importance of the industry to the economic well-being of Maryland's families, and to the fiscal health of state and local governments, remains crucial. This is further underscored by the attention given to the housing industry through legislation by policymakers in the Maryland General Assembly and through subsidies and outreach programs funded by Maryland's Department of Housing and Economic Development (DHCD).

Undoubtedly, these legislative and executive efforts to accelerate the housing market's recovery will eventually translate into growing economic and fiscal impacts as the industry's performance returns to normal activity. One might expect that the economic impact of the real estate industry has been somewhat suppressed in Maryland recently, given the downturn of the market over the past few years. While it is true that the industry's impacts were likely greater during the boom years, the fact remains that much of the impact of real estate on the state's economy is permanent in nature, and does not disappear as a result of market fluctuations.

The Importance of Real Estate

Real property touches our lives every day. We wake up in it. We drive by it. We work in it. Occasionally, we buy and/or sell it. We read about it—in articles and ads about homes for sale, people who have located or built their dream homes—watch it on Sunday morning home tours, or even make a hobby of it, looking at open houses. For most of us, owning a home is the most momentous financial decision of our lives, and homeownership remains the greatest source of household wealth. It is no wonder that owning a home remains the consummate American dream.

The Industry Defined

The real estate industry has at its center the transfer of real property. The mainstay of the industry is real estate licensees, the professionals who are the face of residential and commercial property purchases and sales. These professionals are the most visible component in a complex array of professionals and firms involved in providing real estate related services.

Most real estate licensees are primarily concerned with the buying and selling of properties. In support of these transactions, property appraisers, title companies, real estate lawyers, and other professionals all play critical roles. The property insurance and mortgage banking sectors also provide services essential to facilitate real estate transactions. (Mortgage banking includes not only banks and savings and loans, but also mortgage brokers and the secondary mortgage market.)

Existing homes represent the majority of home sales, and residential properties dominate construction activities, accounting for well over half the output of the construction industry. As is the case with real estate services, construction includes many types of companies and workers. These range from land developers, who assemble and prepare land for construction, to architects and engineers, who design housing and other structures, and to builders, who manage the construction process. Builders in turn rely on subcontractors, including various construction trades such as electricians and roofers, as well as suppliers of materials and equipment to convert plans to homes.

But even after properties have been developed and sold, the real estate industry continues to provide services, including such critical ones as property management and maintenance. These are crucial to the quality of life of residents and to the returns on investment that building owners anticipate and require.

For the purposes of this study, the real estate sector is defined to include real estate, finance and insurance services and construction activities, all of which are interconnected in delivering real estate related services.

A Statistical Sketch of the Real Estate Industry

Because the real estate industry necessarily involves so many other participants in the Maryland economy (e.g., real estate lawyers, lenders, title insurers, etc.), it is difficult to provide a fully comprehensive statistical picture of the industry. As a general rule, we have categorized the industry to include those providing real estate services, financial and insurance services, and those engaged in construction activities. The following data focus upon these as the most prominent segments of the overall real estate industry.

Employment. The 2006 data from Maryland’s Department of Labor, Licensing and Regulation (DLLR) indicate that approximately 34,000 Marylanders provide real estate services. This number includes agents and brokers as well as property managers, landlords, appraisers, and other service providers.

However, these data only reflect those real estate professionals who are on a permanent payroll, based upon unemployment insurance records/data. This figure does not include those real estate professionals who work as independent contractors, as do a majority of real estate licensees, and who therefore are not included in unemployment insurance records. We estimate that the DLLR statistics of unemployment insurance account for approximately 40 percent of all real estate sector workers.

An estimate of the number of self-employed workers providing real estate services can be derived from data on membership from the Maryland Association of REALTORS® (MAR) and other sources. MAR membership in 2006 was approximately 34,000, primarily agents and brokers involved in property sales. This figure also includes workers providing other services such as appraisal and financial services. This membership can be assumed to include the agents and brokers and many of the appraisers and finance professionals included in the DLLR data. Based on the most recently available (2005) County Business Pattern data from the U.S. Census Bureau, Sage estimates that nearly 8,000 MAR members are captured within the DLLR data. Thus, over 26,000 workers providing real

estate services are estimated to be self-employed. As indicated in Table 1 left, in total, over 60,000 workers in Maryland are involved in providing real estate services. Despite cyclical fluctuations, these numbers have varied only slightly since 2000.

Indeed, even this number may be conservative. DLLR through 2006 has issued over 50,000 real estate licenses. Although this suggests that many more Marylanders are involved in real estate services than are members of MAR (a voluntary organization), or reflected in insurance data, there is no readily available data on the income of these licensees or on other indicators of their active work in real estate. Some of these licensees reside in adjoining states,

Table 1: 2006 Summary of Direct Real Estate Employment Totals

Employment Data Categories	Employment
DLLR-Measured Real Estate Employment	34,229
MAR Membership not captured by DLLR data	26,161
<i>MAR Membership</i>	<i>34,000</i>
<i>MAR Membership captured by DLLR data</i>	<i>7,839</i>
Total	60,390

and presumably contribute primarily to the economies of those states. Others may hold licenses but derive most or all of their income from other work. Others may just be starting in the real estate industry and have yet to earn commissions, or may have left the industry (e.g., through retirement), but still maintain their licenses. For a variety of reasons, some licensees may contribute only modestly, if at all, to the economic activity of the real estate industry in Maryland. To the extent that these additional workers are an active part of the state's real estate industry, this analysis will underestimate the total economic contribution of the industry by not including their impacts within the estimates provided above.

The federal Bureau of Labor Statistics provides more detailed annual data on employment and wages. These data focus more specifically on those finance and insurance activities directly connected to the real estate industry. In 2006, the most recent data available, there were roughly 10,000 workers in real estate credit, a category that largely includes mortgage brokers/bankers. While this includes mortgage banking establishments, it excludes other banks, savings and loans, and other sources of mortgage credit. Property insurance companies also employed about 10,000 workers, while title insurance companies had an additional 1,000 workers.

Maryland construction activities employed 193,000 workers in the third quarter of 2007, the most recent data available. Over 90 percent were involved in building construction directly or as workers in specialty trade companies such as masonry, roofing, electrical, and plumbing contractors. (Fewer than 10 percent of all construction workers were involved in heavy construction such as roads and bridges.) Since 2000, the number of construction workers in Maryland has risen sharply, from 157,000 workers to 193,000 by the third quarter of 2007, an increase exceeding 20 percent. Table 2 provides employment data for the real estate industry, all private-sector workers, and all workers in Maryland.

Table 2: Employment Related to the Real Estate Industry (in thousands) 2000-2007

Sector	2000	2001	2002	2003	2004	2005	2006	2007 Q3
Total: all sectors	2,404	2,423	2,427	2,434	2,461	2,497	2,530	2,542
Government sector: total	431	443	450	450	446	449	455	433
Private sector: total	1,973	1,980	1,977	1,984	2,015	2,049	2,075	2,109
Real estate services	36	32	32	33	33	34	34	34
Rental and leasing services	N/A	14	14	14	14	14	13	13
Self-employed agents and brokers (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	27
Finance & insurance	N/A	16	17	19	20	21	21	N/A
Real estate credit	N/A	6	6	8	9	10	10	N/A
Property insurance	N/A	9	10	10	10	10	10	N/A
Title insurance	N/A	1	1	1	1	1	1	N/A
Construction	157	165	166	167	176	183	188	193
Construction of buildings	37	38	40	40	42	44	45	45
Heavy and civil engineering construction	14	17	16	17	17	17	17	18
Specialty trade contractors	106	110	110	110	116	121	126	131

Note. (1) The estimate of almost 27,000 self-employed agents and brokers is based on current MAR membership. Data for earlier periods are not available.

Source: Maryland Department of Labor, Licensing, and Regulation; U.S. Department of Labor, Bureau of Labor Statistics

As a share of overall state employment, real estate services as reported by DLLR have remained remarkably stable since 2000. According to the most recent data, 1.4 percent of all Maryland workers counted by DLLR provide real estate services as a form of employment. By contrast, finance and insurance employment related to real estate has grown slightly, from 0.6 percent of total employment in 2001 to 0.8 percent in 2006, due to increases in real estate credit employment, including lending, loan origination, and collections accounting. Similarly, construction employment has risen over recent years, from 6.5 percent in 2000 to 7.6 percent by late 2007. In 2007, an estimated 1.1 percent of the Maryland workforce was self-employed agents and brokers. Collectively, these sectors of the real estate industry accounted for almost 11 percent of all Maryland employment in late 2007, or more than one out of every 9 workers. Because these numbers do not include lawyers or architects and engineers, they understate the overall contribution of the real estate industry to employment in Maryland.

Table 3 provides year-by-year data for the share of total employment attributable to the most significant sectors of the real estate industry.

Table 3: Employment Related to the Real Estate Industry (share of total) 2000-2007

Sector	2000	2001	2002	2003	2004	2005	2006	2007 Q3
Government sector: total	17.9%	18.3%	18.5%	18.5%	18.1%	18.0%	18.0%	17.0%
Private sector: total	82.1%	81.7%	81.5%	81.5%	81.9%	82.0%	82.0%	83.0%
Real estate services	1.5%	1.3%	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%
Rental and leasing services	N/A	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%
Self-employed agents and brokers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1%
Finance & insurance	N/A	0.6%	0.7%	0.8%	0.8%	0.8%	0.8%	N/A
Real estate credit	N/A	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	N/A
Property insurance	N/A	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	N/A
Title insurance	N/A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	N/A
Construction	6.5%	6.8%	6.8%	6.9%	7.2%	7.3%	7.4%	7.6%
Construction of buildings	1.5%	1.6%	1.6%	1.7%	1.7%	1.8%	1.8%	1.8%
Heavy and civil engineering construction	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Specialty trade contractors	4.4%	4.5%	4.5%	4.5%	4.7%	4.9%	5.0%	5.1%

Source: Sage

Income. In 2006, those real estate service industry workers included in DLLR's unemployment insurance records earned total wages of \$1.8 billion, a 40 percent increase from 2000. Self-employed real estate agents and brokers earned an estimated \$1.3 billion in 2006. Approximately 30 percent of the \$1.8 billion in wages were earned by workers in real estate rental and leasing services. Finance and insurance workers earned \$1.6 billion in 2006, with just over half of this income going to real estate credit workers and the remaining income going to property or title insurance employees.

Construction industry workers earned \$9.1 billion in wages in 2006, an increase exceeding 50 percent relative to wages earned in the year 2000. This statistic reveals how important construction has been in recent years to sustaining middle class livelihoods at a time of continuing job loss within Maryland's industrial base. The majority of these construction earnings were generated by employees of specialty trade contractors. Roughly a quarter of these wages were earned by employees of builders who earned approximately one quarter of the total, while workers in heavy construction earned just under 10 percent. See Table 4 for year-by-year information on wages.

Table 4: Total Wages (millions of current dollars) 2000-2007

Sector	2000	2001	2002	2003	2004	2005	2006	2007Q3
Total: all sectors	87,640	92,614	95,524	99,057	104,681	110,806	116,736	29,495
Government sector: total	17,540	19,278	20,653	21,377	22,084	23,155	24,376	6,213
Private sector: total	70,100	73,336	74,871	77,680	82,597	87,651	92,360	23,282
Real estate services	1,278	1,198	1,280	1,377	1,562	1,690	1,794	417
Rental and leasing services	N/A	428	434	456	489	518	530	134
Self-employed agents and brokers	N/A	N/A	N/A	N/A	N/A	N/A	1,344	N/A
Finance & insurance	N/A	971	1,150	1,430	1,469	1,624	1,607	N/A
Real estate credit	N/A	409	547	787	792	871	822	N/A
Property insurance	N/A	523	559	586	623	693	723	N/A
Title insurance	N/A	38	44	58	54	60	62	N/A
Construction	6,006	6,651	6,826	7,079	7,747	8,396	9,076	2,326
Construction of buildings	1,468	1,629	1,770	1,898	2,118	2,305	2,482	573
Heavy and civil engineering construction	521	677	660	706	747	805	851	223
Specialty trade contractors	4,017	4,345	4,396	4,475	4,882	5,286	5,743	1,530

Source: Maryland Department of Labor, Licensing, and Regulation

In 2006, real estate services workers counted by DLLR earned 1.5 percent of all wages paid in the state of Maryland, a figure that has been relatively constant since 2000. In addition, self-employed agents and brokers accounted for an estimated 1.2 percent of the state’s income. The share of total income earned by the finance and insurance workers in 2006 was an additional 1.4 percent of total statewide compensation, an increase from 2001 when these workers earned the equivalent of 1.0 percent of total state wages. Construction workers earned 7.8 percent of all Maryland wages in 2006, a significant increase in the share of total wages earned by construction workers in the year 2000. Annual wage data are presented in Table 5.

Table 5: Total Wages (share of total) 2000-2007

Sector	2000	2001	2002	2003	2004	2005	2006	2007Q3
Government sector: total	20.0%	20.8%	21.6%	21.6%	21.1%	20.9%	20.9%	21.1%
Private sector: total	80.0%	79.2%	78.4%	78.4%	78.9%	79.1%	79.1%	78.9%
Real estate services	1.5%	1.3%	1.3%	1.4%	1.5%	1.5%	1.5%	1.4%
Rental and leasing services	N/A	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Self-employed agents and brokers	N/A	N/A	N/A	N/A	N/A	N/A	1.2%	N/A
Finance & insurance	N/A	1.0%	1.2%	1.4%	1.4%	1.5%	1.4%	N/A
Real estate credit	N/A	0.4%	0.6%	0.8%	0.8%	0.8%	0.7%	N/A
Property insurance	N/A	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	N/A
Title insurance	N/A	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	N/A
Construction	6.9%	7.2%	7.1%	7.1%	7.4%	7.6%	7.8%	7.9%
Construction of buildings	1.7%	1.8%	1.9%	1.9%	2.0%	2.1%	2.1%	1.9%
Heavy and civil engineering construction	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%
Specialty trade contractors	4.6%	4.7%	4.6%	4.5%	4.7%	4.8%	4.9%	5.2%

Source: Sage

Gross State Product. As defined by the U.S. Department of Commerce, gross state product is a measure of the value added by economic activity. For example, when a builder purchases lumber and other materials to build a house, the builder uses skilled labor and expertise to convert those materials into a finished home. The difference between the cost of lumber and other construction materials/inputs to the construction process and the price of a finished home is the value added by the builder.

In 2006, real estate services contributed \$43.8 billion of value added to Maryland's gross state product. This was an increase of well over 60 percent (not adjusted for inflation) from the \$26.8 billion that real estate services contributed to gross state product in 2000. Construction contributed \$15.9 billion to Maryland's gross state product in 2000, also an increase of over 60 percent compared to the contribution in 2000. Table 6 provides related statistical detail for gross state product data. It is important to note that gross state product data are not available on a detailed level for the finance and insurance activities most closely tied to real estate. As a result, to the extent that real estate activities are embedded within those sectors, the gross state product figures cited above do not fully reflect the totality of real estate activities in Maryland.

Table 6: Gross State Product (millions of current dollars) 2000-2007

Sector	2000	2001	2002	2003	2004	2005	2006
Total: all sectors	180,367	192,659	204,120	213,306	229,158	244,447	257,815
Private sector: total	149,243	159,837	168,770	176,556	190,637	203,772	215,387
Real estate services	26,771	29,140	30,830	32,960	37,014	39,604	43,786
Real estate	24,653	26,930	28,517	30,560	34,537	37,038	N/A
Rental and leasing services	2,118	2,210	2,313	2,400	2,478	2,566	N/A
Construction	9,907	11,003	11,644	12,268	13,555	15,261	15,876

Source: U.S. Department of Commerce, Bureau of Economic Analysis

In terms of its relative contribution, the value added by real estate services to gross state product in 2006 represented 17 percent of total gross state product. Construction contributed 6.2 percent of total value of gross state product. *Together these two sectors of the real estate industry contributed almost one quarter of the value of Maryland's gross state product in 2006.* This total contribution was significantly higher than the contribution made in 2000, when real estate services accounted for 14.8 percent of gross state product and construction accounted for 5.5 percent. Table 7 provides annual data regarding the contribution of the real estate industry to gross state product.

Table 7: Gross State Product (share of total) 2000-2007

Sector	2000	2001	2002	2003	2004	2005	2006
Private Sector: total	82.7%	83.0%	82.7%	82.8%	83.2%	83.4%	83.5%
RE Services + Construction	20.3%	20.8%	20.8%	21.3%	22.1%	22.4%	23.2%
Real estate services	14.8%	15.1%	15.1%	15.5%	16.2%	16.2%	17.0%
Real estate	13.7%	14.0%	14.0%	14.3%	15.1%	15.2%	N/A
Rental and leasing services	1.2%	1.1%	1.1%	1.1%	1.1%	1.0%	N/A
Construction	5.5%	5.7%	5.7%	5.8%	5.9%	6.2%	6.2%

Source: Sage

The Real Estate Industry's Economic and Fiscal Impacts

Economic Impacts

In addition to the jobs, income, and business sales and revenue supported directly by Maryland's real estate industry, there are other jobs that are supported through the industry's multiplier effects. These jobs may be the generic type associated with any business operation—the purchase of copy paper for a REALTOR®'s or title company's office—or those more specifically related to the real estate transaction—replacing a roof or having a termite inspection. These transactions in turn allow for the purchase of yet other goods and services, from utilities and accounting services to airline tickets and fleet repair services. This chain of suppliers to the real estate/construction industry is viewed by economic impact modelers as the indirect economic impact of real estate-associated activities.

Moreover, workers in the real estate industry and those in the broader supply chain spend a substantial proportion of their wages and income in Maryland on a host of consumer goods and services. The economic impacts associated with household expenditures attributable to real estate activities are known as the real estate industry's induced economic impacts. Taken together, the direct, indirect, and induced impacts make up the total impact of the real estate industry. For every five jobs in the real estate industry, the multiplier effect adds another four jobs to Maryland's economy. As a result, the total impact of the real estate industry on the Maryland economy is not simply represented by the 275,000 direct industry jobs, but by a total exceeding 502,000 jobs. Similarly, the almost \$14 billion in direct real estate industry income is only a part of the total impact, which is nearly \$24 billion in income.

According to IMPLAN, the modeling software that has become the industry standard economic impact assessment tool, the value of sales made by the real estate industry in Maryland in 2006 exceeded \$60 billion. When the indirect and induced sales supported by the industry are included, a total of over \$98 billion in sales of goods and services by Maryland businesses is supported by the state's real estate industry. Table 8 includes more detail regarding the real estate industry's economic contributions.

Fiscal Impacts

The Maryland Department of Assessment and Taxation estimates the value of all real property in Maryland, and publishes annual summary statistics. The most current assessment, for the fiscal year beginning July 2008, estimates the total value of Maryland real estate at almost \$700 billion. Over the past five years the total assessable base of real property in the state has risen over 90 percent, from \$359 billion in the fiscal year beginning July 2003. As shown in Table 9, on page 13, the year-by-year increases in the total assessable base have ranged from 10.3 percent to 17.5 percent and for the 5-year period have averaged 11.5 percent.

Table 8: 2006 Real Estate Industry Economic Impacts

Type of impact by sector	Jobs	Income (millions)	Sales (millions)
Direct impacts			
Construction	193,012	\$9,076	\$33,362
Real estate (1)	61,234	\$3,137	\$23,000
Finance and insurance	20,742	\$1,607	\$4,438
Total industry	274,988	\$13,821	\$60,800
Indirect & induced impacts			
Construction	153,404	\$5,385	\$22,907
Real estate (1)	45,257	\$3,166	\$11,286
Finance and insurance	27,984	\$1,289	\$3,423
Total industry	226,645	\$9,840	\$37,616
Total impacts			
Construction	346,416	\$14,461	\$56,269
Real estate (1)	106,490	\$6,304	\$34,286
Finance and insurance	48,726	\$2,897	\$7,861
Total industry	501,632	\$23,661	\$98,416
<small>Note. (1) Real estate includes workers and income captured by DLLR and Sage's estimates of self-employed workers and their earnings. Sources: Maryland Department of Labor, Licensing, and Regulation, IMPLAN, Sage</small>			

Table 9: Maryland Assessable Base 2003-2008

Period	Value (billions of current dollars)	Annual change
July 2003	359.1	N/A
July 2004	396.1	10.3%
July 2005	451.8	14.0%
July 2006	527.0	16.7%
July 2007	619.0	17.5%
July 2008	694.1	12.1%
Average		11.5%

Source: Maryland Department of Assessment and Taxation, Sage

The assessable base reflects both changes in the individual value of real estate properties and changes in the total number of properties. Therefore, the rise in the value of the assessable base could be attributed either to rising property values or substantial new construction activity or both. Table 10, which presents data on average and median prices of housing sold in Maryland since 1999, indicates that most of the long-term increase in the assessable base can be attributed to the increased value of individual properties. From 1999 to 2007, the average price of a home in Maryland jumped 128 percent, from almost \$159,000 to over \$362,000, for an average annual increase of 9.3 percent. Over the same period, the median home price in Maryland increased even more—134 percent—from \$131,000 to \$308,000.

Table 10: Sales and Prices of Maryland Homes 1999-2008

Period	Units sold		Average price		Median price	
	Number	Change	Number	Change	Number	Change
1999	70,029	N/A	\$158,989	N/A	\$131,405	N/A
2000	71,488	2.1%	\$162,776	2.4%	\$131,902	0.4%
2001	80,005	11.9%	\$169,310	4.0%	\$138,997	5.4%
2002	84,812	6.0%	\$194,180	14.7%	\$156,485	12.6%
2003	89,371	5.4%	\$224,949	15.8%	\$182,449	16.6%
2004	97,893	9.5%	\$269,305	19.7%	\$223,293	22.4%
2005	98,858	1.0%	\$319,442	18.6%	\$266,727	19.5%
2006	82,781	-16.3%	\$357,928	12.0%	\$307,987	15.5%
2007	63,381	-23.4%	\$362,247	1.2%	\$307,894	0.0%
2008 Q1	N/A	N/A	\$330,960	-8.6%	\$283,692	-7.9%
Average	82,069			9.3%		9.8%

Sources: Maryland Association of REALTORS®, Sage

By March 2008, both the average price and median price of a Maryland home had dropped, by 8.6 percent and 7.9 percent, respectively. Nevertheless, even with this most recent decrease in housing values, the average annual increase in value for both the average price and median price home in Maryland has been above 9 percent since 1999. By contrast, the rate of inflation since 1999 has averaged between 2.5 percent and 3 percent annually. Despite the recent turmoil in the housing market, over the long run, owning a home in Maryland has been a sound investment.

Real Estate Taxes as a Source of Local Government Finance

In Maryland, some form of real estate taxes—including real property taxes, transfer taxes, and recordation taxes—are levied by the state, all counties, Baltimore City, and many municipalities. The most significant real estate taxes are those levied by the twenty-three counties and Baltimore City. Indeed, in terms of local tax revenue streams, taxes on real estate are the primary sources of revenue.

Real Property Tax. The high levels of real estate taxes can be understood from a variety of perspectives, including analyzing trends for local real property taxes in recent years. As shown in Table 11, almost every county and Baltimore City have taken the opportunity to reduce property tax rates in a period of steadily increasing property values. Indeed, only Charles County has increased property taxes since FY2004, an increase of 1 cent per \$100 of a home's assessed value. Calvert, Prince George's, and Washington counties have left tax rates unchanged. All other counties and the State have reduced these tax rates. Overall tax rates have declined over 5 percent since FY2004 at an average annual rate of 1.5 percent.

Table 11: Real Property Taxes in Maryland, FY2004-FY2008

Jurisdiction	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Change FY04-FY08	CAGR* FY04-FY08
Allegany	1.000	1.001	1.001	0.983	0.983	-1.7%	-0.4%
Anne Arundel	0.955	0.941	0.931	0.918	0.891	-6.7%	-1.7%
Baltimore City	2.328	2.328	2.308	2.288	2.268	-2.6%	-0.7%
Baltimore County	1.115	1.115	1.115	1.100	1.100	-1.3%	-0.3%
Calvert	0.892	0.892	0.892	0.892	0.892	0.0%	0.0%
Caroline	0.952	0.952	0.910	0.870	0.870	-8.6%	-2.2%
Carroll	1.048	1.048	1.048	1.048	1.048	0.0%	0.0%
Cecil	0.980	0.980	0.980	0.960	0.960	-2.0%	-0.5%
Charles	1.016	1.026	1.026	1.026	1.026	1.0%	0.3%
Dorchester	0.930	0.930	0.920	0.896	0.896	-3.7%	-0.9%
Frederick	1.000	1.000	1.000	0.936	0.936	-6.4%	-1.6%
Garrett	1.036	1.036	1.000	1.000	1.000	-3.5%	-0.9%
Harford	1.092	1.092	1.082	1.082	1.082	-0.9%	-0.2%
Howard	1.044	1.044	1.044	1.014	1.014	-2.9%	-0.7%
Kent	1.012	1.012	0.992	0.972	0.972	-4.0%	-1.0%
Montgomery	0.751	0.734	0.679	0.624	0.627	-16.5%	-4.4%
Prince George's	0.960	0.960	0.960	0.960	0.960	0.0%	0.0%
Queen Anne's	0.976	0.926	0.870	0.800	0.770	-21.1%	-5.8%
St. Mary's	0.908	0.878	0.872	0.857	0.857	-5.6%	-1.4%
Somerset	1.010	1.010	0.990	0.940	0.940	-6.9%	-1.8%
Talbot	0.553	0.540	0.520	0.500	0.475	-14.1%	-3.7%
Washington	0.948	0.948	0.948	0.948	0.948	0.0%	0.0%
Wicomico	1.041	1.025	0.993	0.942	0.881	-15.4%	-4.1%
Worcester	0.730	0.730	0.730	0.700	0.700	-4.1%	-1.0%
State of Maryland	0.132	0.132	0.132	0.112	0.112	-15.2%	-4.0%
Average: State and Counties						-5.7%	-1.5%
Average Counties only						-5.3%	-1.4%

Note. * CAGR = compound annual growth rate or the average change per year.
Source: Maryland Department of Assessment and Taxation, Sage

As indicated, the vitality of the real estate market in the past few years has motivated the continued decline in tax rates. Localities have been able to take advantage of rising residential real estate values and associated tax revenue growth. Even with moderate tax decreases, property tax bills have continued to climb for most Marylanders, providing localities with a reliable stream of revenues with which to finance government services. Recognizing that local governments depend on a steadily increasing flow of tax revenues from real estate, it is more beneficial to landowners and more popular for legislators and policymakers to attribute increases in revenue to higher property value as opposed to higher tax rates.

Transfer Tax. The sale of real property in Maryland is also subject to transfer taxes that are imposed by the state and most, though not all, counties. While real property taxes are assessed annually based upon the value of the property, transfer taxes are transaction based: one-time tax events levied when a property changes hands. Unlike real property tax rates, which have generally declined over time, transfer tax rates, with one exception, have held steady in recent years. The exception, Allegany County, increased its transfer tax rate sharply, by 25.7 percent in fiscal 2006. Seven Maryland counties impose no transfer taxes. Table 12 lists current and recent transfer tax rates for all counties, Baltimore City, and the State of Maryland.

Table 12: Property Transfer Taxes in Maryland, FY2004-FY2008

Jurisdiction	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal FY04-FY08	CAGR* FY04-FY08
Allegany	0.20%	0.20%	0.50%	0.50%	0.50%	150.0%	25.7%
Anne Arundel	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Baltimore City	1.50%	1.50%	1.50%	1.50%	1.50%	0.0%	0.0%
Baltimore County	1.50%	1.50%	1.50%	1.50%	1.50%	0.0%	0.0%
Calvert	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Caroline	0.50%	0.50%	0.50%	0.50%	0.50%	0.0%	0.0%
Carroll	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Cecil	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Charles	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Dorchester	0.75%	0.75%	0.75%	0.75%	0.75%	0.0%	0.0%
Frederick	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Garrett	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Harford	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Howard	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Kent	0.50%	0.50%	0.50%	0.50%	0.50%	0.0%	0.0%
Montgomery	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Prince George's	1.40%	1.40%	1.40%	1.40%	1.40%	0.0%	0.0%
Queen Anne's	0.50%	0.50%	0.50%	0.50%	0.50%	0.0%	0.0%
St. Mary's	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Somerset	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Talbot	1.00%	1.00%	1.00%	1.00%	1.00%	0.0%	0.0%
Washington	0.50%	0.50%	0.50%	0.50%	0.50%	0.0%	0.0%
Wicomico	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
Worcester	0.50%	0.50%	0.50%	0.50%	0.50%	0.0%	0.0%
State of Maryland	0.50%	0.50%	0.50%	0.50%	0.50%	0.0%	0.0%

Note. * CAGR = compound annual growth rate or the average change per year.

Source: Maryland Department of Assessment and Taxation, Sage

Recordation Tax. The recordation tax is yet another real estate related tax, imposed when a property is sold or when a mortgage is refinanced. Given declining mortgage rates in recent years, the recordation tax (sometimes referred to as documentary stamps) has been a source of significant local government revenue growth for much of the current decade. These taxes, levied by all counties and Baltimore City but not by the state, are traditionally listed as values per \$500 of transaction. For example, the current rate of \$3.25 for Allegany County equates to 0.65 percent of transaction value, a rate higher than the County’s transfer tax rate of 0.50 percent.

In most counties, recordation taxes have remained unchanged in recent years. Four jurisdictions, however, have raised recordation tax rates since fiscal 2004—Allegany, Cecil, and Frederick counties and Baltimore City. Current and recent rates are shown in Table 13.

Table 13: Recordation Taxes in Maryland Per \$500 of Transaction Value, FY2004-FY2008

Jurisdiction	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Change FY04-FY08	CAGR* FY04-FY08
Allegany	3.00	3.00	3.00	3.00	3.25	8.3%	2.0%
Anne Arundel	3.50	3.50	3.50	3.50	3.50	0.0%	0.0%
Baltimore City	2.75	5.00	5.00	5.00	5.00	81.8%	16.1%
Baltimore County	2.50	2.50	2.50	2.50	2.50	0.0%	0.0%
Calvert	5.00	5.00	5.00	5.00	5.00	0.0%	0.0%
Caroline	5.00	5.00	5.00	5.00	5.00	0.0%	0.0%
Carroll	5.00	5.00	5.00	5.00	5.00	0.0%	0.0%
Cecil	3.30	3.30	4.10	4.10	4.10	24.2%	5.6%
Charles	5.00	5.00	5.00	5.00	5.00	0.0%	0.0%
Dorchester	5.00	5.00	5.00	5.00	5.00	0.0%	0.0%
Frederick	5.00	5.00	5.00	5.00	6.00	20.0%	4.7%
Garrett	3.50	3.50	3.50	3.50	3.50	0.0%	0.0%
Harford	3.30	3.30	3.30	3.30	3.30	0.0%	0.0%
Howard	2.50	2.50	2.50	2.50	2.50	0.0%	0.0%
Kent	3.30	3.30	3.30	3.30	3.30	0.0%	0.0%
Montgomery	3.45	3.45	3.45	3.45	3.45	0.0%	0.0%
Prince George’s	2.20	2.20	2.20	2.20	2.50	13.6%	3.2%
Queen Anne’s	3.30	3.30	3.30	3.30	3.30	0.0%	0.0%
St. Mary’s	4.00	4.00	4.00	4.00	4.00	0.0%	0.0%
Somerset	3.30	3.30	3.30	3.30	3.30	0.0%	0.0%
Talbot	3.30	3.30	3.30	3.30	3.30	0.0%	0.0%
Washington	3.80	3.80	3.80	3.80	3.80	0.0%	0.0%
Wicomico	3.50	3.50	3.50	3.50	3.50	0.0%	0.0%
Worcester	3.30	3.30	3.30	3.30	3.30	0.0%	0.0%

Note. * CAGR = compound annual growth rate or the average change per year.

Source: Maryland Department of Assessment and Taxation, Sage

Real Estate Tax Revenue. A review of county and Baltimore City budgets indicates that despite recent attempts to contain property tax burdens, real estate taxes—including real property taxes, transfer taxes, and recordation taxes—still account for almost half of all local government revenue, exceeding the local share of income tax, which accounts for approximately one third of local revenue. As noted in Table 14, local governments rely heavily upon real estate taxes on property and real estate transactions to fund the extent and level of services they provide.

The Maryland Real Estate Tax Burden

Maryland is not the only state with substantial real estate taxes. It is, however, one of the states with the most aggressive real estate tax structure. As Table 15 indicates, Maryland ranked 13th in the nation in terms of the median dollar value of real estate taxes in 2005, or approximately one-third higher than was typical for the nation at that time. In 2005, the median value of real estate taxes for Maryland was \$2,159, while the median value for the country was \$1,614.

While Maryland is among the highest ranked states in terms of real estate taxes, when property transfer and recordation taxes are considered, the state ranks even higher in terms of overall tax burdens. The National Council of State Legislatures (NCSL) collects data on real estate transfer taxes imposed both by state and local governments. These taxes go by different names, but generally may be described as taxes imposed on the value of deeds (e.g. transfer taxes) and those imposed on mortgages. The latter include Maryland county recordation taxes and similar taxes in other states.

Not only do these taxes vary among the states—in 14 states there are no state or local transfer taxes at all—they also vary within states. In Maryland, for example, a house purchased in Baltimore City is subject to a 2.0 percent transfer tax and an additional 1.0 percent recordation tax. In Somerset County, a home purchase is subject to a 0.5 percent state transfer tax and a 0.66 percent county recordation tax. Based on NCSL data and current Maryland tax rates, from the perspective of transfer taxes, Maryland is among the most expensive states in which to purchase a home. Using the Somerset County rate as the lowest that can be paid in the state, Maryland ranks sixth in the country for deed and mortgage transfer taxes.

Table 14: Sources of Local Government Finance (\$ in millions) 2007-2008

Type of revenue (1)	Fiscal 2007		Fiscal 2008	
	Value	Share of total	Value	Share of total
County property tax (2)	\$5,256	45.1%	\$5,548	45.0%
County income tax	\$3,809	32.6%	\$3,992	32.4%
Other county revenue	\$2,600	22.3%	\$2,776	22.5%
Total county revenue	\$11,665	100.0%	\$12,316	100.0%

(1) Amounts are the average for all Maryland jurisdictions excluding Worcester, Somerset, and Queen Anne's counties. Comparative data from these counties were not readily available.
(2) County property tax values include real property, transfer and recordation taxes.
Sources: County government web sites, Sage.

Table 15: Property Values and Real Estate Taxes (RET) in 2005

State	Median Value of Homes	Median RET	RET Rank
1. New Jersey	\$333,900	\$5,352	1
2. New Hampshire	240,100	3,920	2
3. Connecticut	271,500	3,865	3
4. New York	258,900	3,076	4
5. Rhode Island	281,300	3,071	5
6. Massachusetts	361,500	2,974	6
7. Illinois	183,900	2,904	7
8. Vermont	173,400	2,835	8
9. Wisconsin	152,600	2,777	9
10. California	477,700	2,278	10
11. Washington	227,700	2,250	11
12. Alaska	197,100	2,241	12
13. Maryland	280,200	2,159	13
14. Pennsylvania	131,900	1,937	14
15. Texas	106,000	1,926	15
16. Oregon	201,200	1,910	16
17. Nebraska	113,200	1,889	17
18. Michigan	149,300	1,846	18
19. Maine	155,300	1,742	19
20. Minnesota	198,800	1,618	20
United States	167,500	1,614	

Source: housingeconomics.com

At the other extreme, a home purchase in Baltimore City, where 3.0 percent of the value of the purchase could be paid in transfer taxes, would rank Maryland as the fourth highest transfer tax rates in the country. Rates for the top fifteen states are presented in Table 16.

Table 16: Transfer Tax Rates of the Top 15 States in 2007

State	Deed, low	Deed, high	Mortgage, low	Mortgage, high	Deed and mortgage		Deed and mortgage	
					Low	High	Low rank	High rank
Delaware	1.50%	1.50%	2.00%	2.00%	3.50%	3.50%	1	2
District of Columbia	1.10%	1.10%	1.10%	1.10%	2.20%	2.20%	2	6
Washington	1.28%	1.28%	0.25%	0.75%	1.53%	2.03%	3	7
New Hampshire	1.50%	1.50%		0.00%	1.50%	1.50%	4	8
New York	0.40%	1.40%	1.00%	1.43%	1.40%	2.83%	5	5
Maryland	0.50%	2.00%	0.66%	1.00%	1.16%	3.00%	6	4
Hawaii	1.00%	3.50%	0.10%	0.10%	1.10%	3.60%	7	1
Florida	0.70%	0.70%	0.35%	0.35%	1.05%	1.05%	8	12
Pennsylvania	1.00%	3.00%			1.00%	3.00%	9	3
Michigan	0.75%	0.75%	0.11%	0.15%	0.86%	0.90%	10	13
Connecticut	0.50%	0.96%	0.11%	0.11%	0.61%	1.07%	11	11
Minnesota	0.33%	0.33%	0.23%	0.23%	0.56%	0.56%	12	14
New Jersey	0.40%	1.21%	0.10%	0.10%	0.50%	1.31%	13	9
Vermont	0.50%	1.25%			0.50%	1.25%	14	10
Tennessee	0.37%	0.37%	0.12%	0.12%	0.49%	0.49%	15	15

Sources: National Conference of State Legislatures, Maryland Comptroller, Sage

Conclusion

Maryland’s real estate industry, which includes an array of real estate, finance and insurance services as well as construction activities, contributes nearly one-quarter (23.0%) of the state’s gross state product, amounting to over \$98 billion in business sales activity. All told, the industry supported 455,000 jobs in 2006, or approximately 18 percent of the state’s job totals. These jobs were associated with almost \$21 billion in wage/salary income, or approximately \$46,000 per job

Moreover, County and City governments across Maryland generate nearly half of their revenues from real estate taxation—including real property tax, transfer tax, and recordation tax (in excess of \$5 billion per fiscal year). Marylanders pay particularly high property tax burdens relative to the balance of the nation. In the last year for which comprehensive, comparable and reliable information are available, Maryland ranked 13th among U.S. states in terms of the absolute real estate tax levels, with median real estate tax burdens of \$2,159 compared to the national median of \$1,614.

Though many observers presently choose to focus upon the housing market’s condition, the fact remains that over the long term, real estate and construction represents one of Maryland’s great growth industries. Indeed, the State’s real estate and construction activities are simply reflective of the primacy of Maryland’s economy in a national and increasingly global context. In short, real estate and construction activities in Maryland remain elevated over time because there is so much demand for business and for people to be here. Given Maryland’s central position in the world’s innovation economy, the expectation is that real estate and construction activities will remain disproportionately important going forward.

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