
Examining the First-Time Homebuyer Tax Credit – Overview

The Housing Problem

The housing sector is currently locked in a self-reinforcing cycle of rising foreclosures and falling prices. This cycle is the direct result of a surplus in the supply of homes for sale relative to consumer demand. A combination of programs aimed at reducing foreclosures and stimulating consumer demand is needed to stabilize this very important sector of the economy.

In recent weeks, the housing market has shown a modest increase in sales volume and prices appear to have stabilized, albeit at low levels. As this report will demonstrate, these improvements are primarily attributable to the effectiveness of the first-time homebuyer tax credit in reducing excess inventory. Notwithstanding the encouraging indicators within the housing market, we note that the sector remains at historically depressed levels and, most importantly, faces continuing challenges from rising unemployment, the threat of further price depreciation and elevated foreclosures that will persist for the next 12 to 18 months.

The Role of the First-Time Homebuyer Tax Credit

The Fix Housing First Coalition retained Rosen Consulting Group to evaluate the effectiveness of the first-time homebuyer tax credit in stimulating consumer demand and reducing the supply of homes available for sale. Dr. Kenneth T. Rosen is Chairman of Rosen Consulting Group. Dr. Rosen is the leading expert on housing economics and also Chair of the Fisher Center for Real Estate and Urban Economics at the Haas School of Business at the University of California, Berkeley. The research team reached the following conclusions:

1. The tax credit has been effective in reducing the supply of homes for sale. The inventory of for-sale homes priced less than \$300,000 has declined from 8.1 months to 6.0 months – a 25.9% decrease in supply.
2. The housing market will be challenged by more foreclosures, job losses and weak consumer confidence in the next 12 to 24 months. Extending the current tax credit is therefore essential to sustaining any recovery in the housing market.
3. The tax credit has not triggered speculative homebuilding. Indeed, housing starts are down by nearly 50% compared with a year ago.
4. Expanding the tax credit to all home buyers would accelerate price stabilization. Over the past year, the supply of higher-priced homes has continued to increase.
5. Stabilization of the housing market is a prerequisite to a general economic recovery. History has shown that growth in the housing sector is a leading economic indicator.

Conclusions

The U.S. housing market is faced with unprecedented challenges which require an extraordinary public policy response. The first-time homebuyer tax credit has proven to be an effective tool in stimulating demand and reducing supply. Given current conditions in the housing market, this program should, at a minimum, be extended and if possible, expanded.