

NAHB Housing Stimulus Proposal

Economic Impact Analysis

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Background

Housing is central to the economic crisis that now affects the world economy. The declines in house prices, the surge in foreclosures, and the reduction in home building activity are historic in scope and threaten to generate the most severe recession in generations. Policies that aim to improve the current economic environment must address conditions in the housing market.

The impact of home building and housing on the national economy should not be underestimated. According to the Bureau of Economic Analysis, in 2005 home building was responsible for 5.4% of gross domestic product (GDP). Housing in general contributed another 10.2%, for a direct housing impact on GDP of 15.6%.

Recent declines in new and existing home sales, new home construction, prices, home owner equity and increases in foreclosures and home inventories suggest that the recovery from the current economic crisis must begin in the housing sector. Key to this effort is stimulating housing demand through significant fiscal policy.

NAHB Proposal

To stimulate the housing sector, NAHB, in coordination with a broad coalition of organizations called Fix Housing First, urges Congress to adopt the following temporary programs to strengthen housing demand and promote economic recovery.

Homebuyer Tax Credit

Enhance the existing first-time homebuyer tax credit by:

- Expanding tax credit eligibility to all buyers of principal residences
- Increasing credit amount to \$10,000 to \$22,000 based on local house prices
- Repealing all recapture rules (make a true tax credit)
- Extending expiration date to December 31, 2009
- Increasing income phase-outs to \$125,000 (\$250,000 for married taxpayers)
- Allowing credit to be claimed at settlement to be used as a downpayment

Mortgage Interest Rate Incentive

Establish a temporary program of below-market mortgage fixed interest rates via buydowns.

- 2.99% 30-year mortgage interest rate for mortgages, with the same restrictions as the tax credit program, originated for principal residences purchased between January 1, 2008 and June 30, 2009

- A 3.99% rate for mortgages purchased between July 1, 2009 and December 31, 2009
- Mortgage amounts must be below the greater of the GSE conforming loan limit or FHA loan limit
- For the 2.99% rate, in the first year, the typical mortgage payment would fall by more than \$350 per month (nearly \$4,300 for the year)

We estimate that these two programs would have the following impacts on the housing market:

- Direct increase in home sales/acquisitions of approximately 1.2 million
- An additional 274,000 home sales/acquisitions by facilitating existing homeowners to sell their residences and purchase another residence

These impacts yield the following economic impacts in first year of the program:

- Increased construction of approximately 332,000 housing units with a net value of \$49 billion
- Additional increase in economic activity from broker and other transaction-related services, property alterations, and furnishings of \$17.5 billion
- Creation of approximately 593,000 jobs, \$29 billion in wages and salaries, \$13 billion in small business income, and \$10 billion in corporate profits
- Tax revenues of \$15 billion for the federal government and \$5 billion for state and local governments (offsetting revenues that reduce the cost of the program to the Treasury)
- 211,000 of the vacant units currently on the market sold and occupied by home owners
- 175,000 renter-occupied units (many being rented because owners are currently unable to sell) sold and occupied by home owners

Modeling Assumptions

NAHB's 2009 forecast projects 531,000 new home sales and 4.575 million existing home sales absent additional stimulus. We estimate that the median 30-year fixed rate mortgage will have an interest rate of 5.6% (yielding an average buydown of 261 basis points). Our impact analysis accounts for excess inventory levels that must be reduced before additional home construction is stimulated.

The Long-Run

Despite the current weakness in the housing sector, housing and homeownership play a critical role in our society, one with enormous documented social and private benefits. The long-run economic prospects for housing and spillover benefits are strong. Due to population growth, an aging housing stock, and increased demand for multifamily properties, NAHB is forecasting long-run sustainable demand for home construction at 1.85 million units once our economy clears the current crisis. At present we are far below this sustainable long-run trend. Policies that stimulate housing demand today are necessary to avoid an even more serious contraction in housing markets and the overall economy before markets return to ordinary levels of activity.