

# Housing = Jobs

*A housing stimulus for economic recovery*

**Proposal:** Homebuyer tax credit.

**Objective:** Stabilize housing markets and create jobs by immediately stimulating home purchases and new-home construction.

Benefit – Stop downward spiral of home prices.

Benefit – Put people back to work.

Benefit – Revive state economy.

Benefit – Increase tax revenues.

**“No economic recovery without housing stabilization”**

*Wall Street Journal, October 31, 2008*



## Problem?

- Prospective homebuyers are reluctant to return to state housing markets.

Why? Declining home prices.

Why? Record foreclosures.

Why? Tighter borrowing requirements.

Why? Sinking consumer confidence.

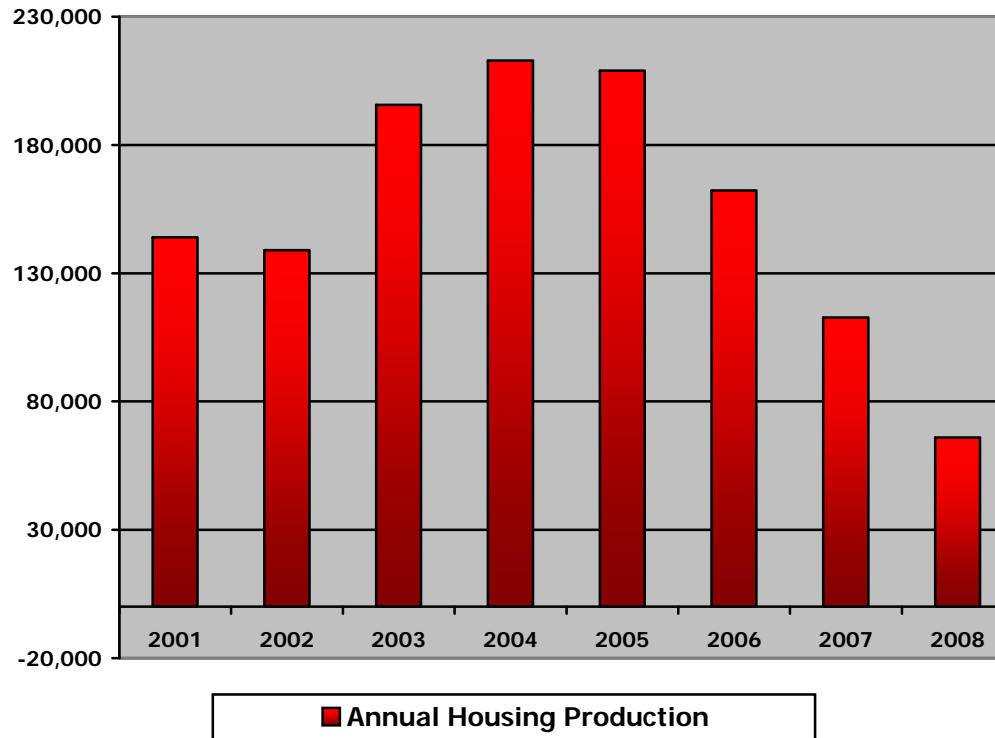
Why? Fear.

“Clearly, the system won’t stabilize until house prices stabilize . . .”

*New York Times*, November 11, 2008

## Result?

- Housing production continues its steady decline.
- 2008 will finish with a total of 66,000 – 25% of normal and the lowest level in recorded history.
- And, California's housing deficit continues to grow.<sup>1</sup>



<sup>1</sup> The CA Department of Housing Community Development says 230,000 newly constructed units are needed annually, which hasn't happened in nearly 20 years.

**As the retreat continues**, California's economy and fiscal health suffer more casualties:

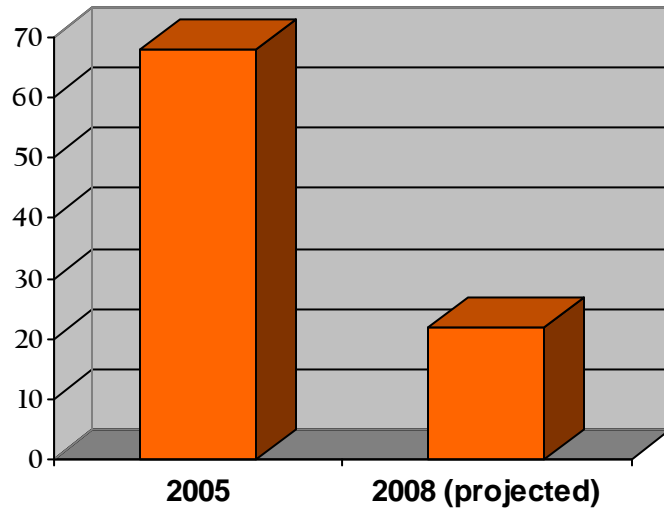
- **Rising unemployment** – California's overall jobless rate is at a recession-level, 12-year high of 7.7%;
- **Company failures and declining sales** – as homebuilders are shuttering operations, related businesses (i.e. Home Depot) are seeing sharp drop-offs in traffic, sales;
- **Tightening credit** – lenders further retrench as foreclosures continue and home-credit quality is battered by falling prices; and
- **Widening fiscal gaps** – with slumping construction and retail sales, state and local treasuries are all but drying up.

**“Falling home prices a huge economic drag”**

*Bloomberg.com, October 29, 2008*

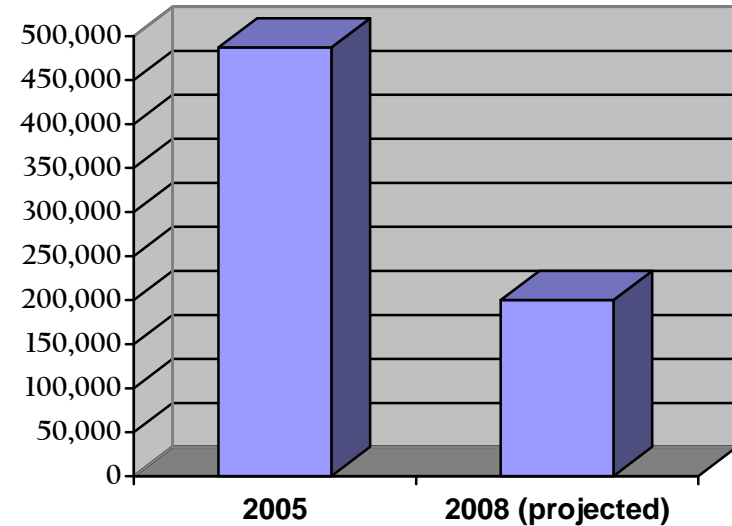


## Impact on the California economy: <sup>2</sup>



Economic output of homebuilding  
(in billions)

Loss in economic output:  
\$46 billion – 2005-08



Jobs created by homebuilding

Loss of jobs:  
287,000 – 2005-08

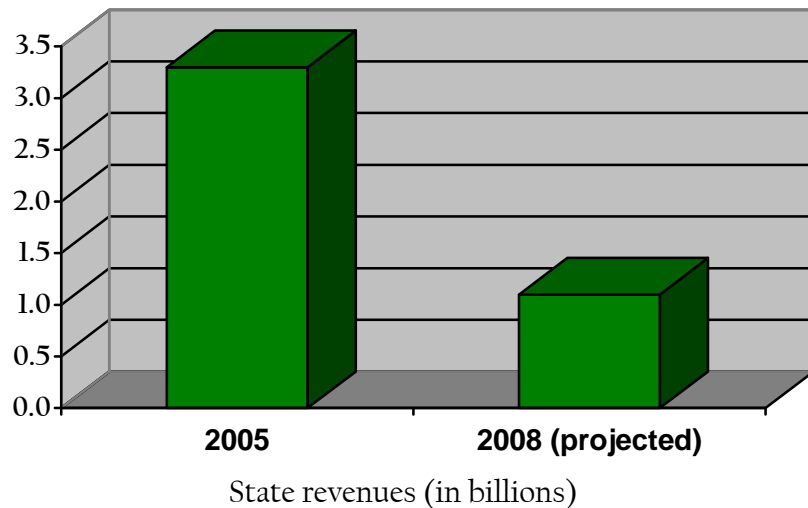
*(Based on 208,000 housing starts in 2005,  
projected 66,000 starts in 2008.)*

<sup>2</sup> *The Economic Benefits of Housing in California -- UPDATE*, Sacramento Regional Research Institute; 2006 and 2008.

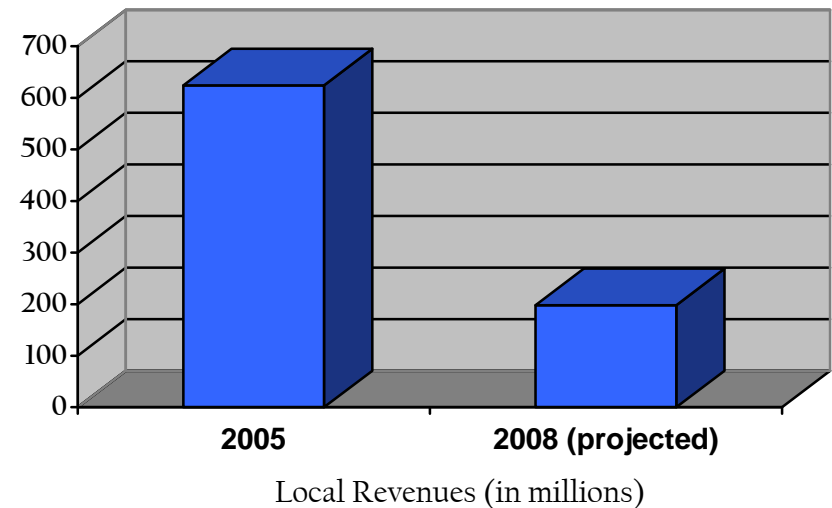
## Housing-driven employment losses aren't just construction jobs. Sidelined by the decline are:

- Truckers
- Cabinet makers
- Furniture manufacturers
- Building suppliers
- Appliance distributors
- Utilities workers
- Lenders
- Accountants
- Insurers
- Machinists
- Paint manufacturers
- Retail sales
- Food and beverage workers
- Warehouse and storage managers
- And, many more . . .

## Impact on state and local treasuries:<sup>3</sup>



Loss in state revenues:  
\$2.2 billion– 2005-08



Loss in local government revenues:  
\$426 million – 2005-08

*(Based on 208,000 housing starts in 2005,  
projected 66,000 starts in 2008.)*



<sup>3</sup> Based on *The Housing Bottom Line: Fiscal Impact of New Home Construction on California Governments*, Blue Sky Consultants; 2007.

*A healthy real estate market relies on buying, selling and building – all occurring simultaneously at normal levels. That’s the condition that needs to be restored in California.*

## **What will turn things around? Buyers!**

- Change psychology: buyers need to feel confident returning to housing markets.
- Give buyers a gentle “shove” off the fence.
- Restore demand to arrest price decline, propel job-generating new construction.
- Improve home lending conditions.

**The stimulus? A homebuyer tax credit.**

**“Intervention needed in housing crisis”**

*Visalia Times Delta, October 20, 2008*



## How the homebuyer tax credit works:

- Set at 5% of the home price, not to exceed \$10,000;
- For the purchase of a newly constructed and unsold single-family home;
- Home must be used as a principal residence; and
- For purchases between 10/01/08 and 10/01/09.

## Fiscal impact:

- Net state revenue gain of \$1.07 billion.<sup>4</sup>
  - Assumes credit is limited to newly constructed homes, only;
  - Assumes credit is available for no more than one year; and
  - Assumes \$16,000 net gain in state revenues for purchase of each new home.<sup>5</sup>

---

<sup>4</sup> Berkeley Economic Consulting; September, 2008.

<sup>5</sup> Based on *The Housing Bottom Line: Fiscal Impact of New Home Construction on California Governments*, Blue Sky Consultants; 2007.

## It's been tried before.

- In 1975, in response to a depressed real estate economy – much like today's – Congress enacted a tax credit aimed at stimulating sales and a return to healthy new housing construction.
- Prospective homebuyers, who had been sitting on the sidelines waiting for prices to hit bottom saw in 1975 the temporary tax credit as something not to miss and they jumped back into the market.
- **The 1975 credit:**
  - Was set at 5% of sale price, with a cap of \$2,000;
  - Was for the purchase of newly constructed homes;
  - For home purchases to be used as principal residences, only; and
  - Was available for only nine months.

- And, it worked:
  - Home purchases increased by nearly 25% in the first year following the credit's enactment;
  - Home values began a steady recovery; and
  - New housing starts doubled in two years.

*It wasn't the size of the tax credit that worked to move people in 1975 – it was the demand for a limited benefit and the corresponding signal from government that we'd hit the bottom. Such a signal is needed now in California to stop the downward spiral of real estate and its corresponding drag on the economy.*

**“All roads into and out of this crisis, run through the housing market.”**

*New York Times, November 11, 2008*



With no change to today's market circumstances, economic forecasts show that California's housing sector isn't likely to recover for another three to four years.

Meantime,

- Joblessness will remain high;
- State and local governments will continue to suffer revenue losses; and
- Spiraling home values will cripple markets and destroy consumer confidence.

State government has the power to make this positive change and the history to know it works.

*And, it is a fiscal winner!*

California needs action now on a homebuyer tax credit.

