MORE STUPID HOUSING POLICY ON THE WAY?

Great news! My house goes on the market today — at the same price the house next door sold as a foreclosure a few years ago.

Okay — it's mostly good news insofar as I don't have to drive back to Ann Arbor every weekend and instead can start enjoying the beauty of west Michigan.

But being in the housing market at its bleakest moment does mean I'm following news closely. Like this story, suggesting the Administration may bring back the housing tax credit.

> The Obama administration has not decided whether it should resurrect a popular tax credit for first-time homebuyers, Housing and Urban Development Secretary Shaun Donovan said on Sunday."It's too early to say whether the tax credit will be revived," Donovan said in an interview on CNN's "State of the Union" program. He said the administration would "do everything we can" to stabilize the shaky U.S. housing market.

Now, policy wonks of all political persuasions have agreed since last year that it was always a stupid policy (and note, this is from before it was extended to more buyers).

> "It's terrible policy," says Mark Calabria of the libertarian Cato Institute.
>
> "It's awful policy," says Andrew Jakabovics, associate director for housing and economics at the liberal Center for American Progress. "It's incredibly expensive. It's not well targeted."
>
> Home sales have risen dramatically in the past year, but most economists don't

> attribute the increase to the tax credit. August single-family-home sales in Southern Nevada, for instance, hit 3,229, up more than 25 percent from a year earlier.
>
> But economists attribute most of the rising sales to the plunge in prices, not the tax credit. The median sale price of single-family homes was off more than 35 percent from a year earlier.
>
> "A heck of a lot of people would have bought the house anyway," says Ted Gayer, an economist at the Brookings Institution.
>
> According to an estimate by the National Association of Realtors, of the 2 million new homebuyers since the credit was instituted, 350,000 say they would not have bought a house without the tax break.
>
> "We paid $8,000 to at least 1.5 million people to do something they were going to do anyway," Jakabovics says.
>
> The tax break, due to expire at the end of November, is on track to cost $15 billion, twice what Congress had planned. In other words, it will cost $43,000 for every new homebuyer who would not have bought a house without the tax break.

Unlike Cash for Clunkers, there was no societal benefit tied to the credit (however ineffective C4C was at saving gas). Moreover, the benefit was small enough – given the cost of a house – that it wasn't helping all that many marginal buyers get into a new home.

More importantly, as Calculated Risk notes (and has been noting, for over a year), the credit doesn't affect the underlying problem in the housing market: too few households and therefore too much supply.

> The problem in housing is there is too much supply (at the current price). Incentivizing people to buy existing homes just shuffles households around – it does NOT reduce the overall supply unless the buyer is moving out of their parent's basement. I doubt that happened very often. Note: It is important to remember that rental units are part of the overall supply, so moving people from a rental unit to homeownership doesn't help.
>
> And if the tax credit leads to more new home sales – that ADDS to the excess supply. And that makes the situation WORSE.
>
> It would be far better for housing and the economy to announce "There will be no further housing tax credits."

But, a tax credit is a Republican policy championed by former realtor Johnny Isakson (R-GA) which means it has the plus – in DC terms – of being hopey-changey bipartisan and of being celebrated as a tax cut for market behavior in DC's twisted sense of morality. And so, we consider re-upping the tax credit.

And while HUD Secretary Shaun Donovan says the Administration would "do anything we can" to prop up the housing market, they seem to be ignoring the underlying causes of the problem. Joe Nocera has a great piece talking about how all players in the housing market right now have reason to be really cautious. But for most, the issue still comes back to oversupply and therefore prices that will fall for some time.

> The second reason is that, Mr. Yun notwithstanding, most people simply do not believe that housing prices are even close to hitting bottom. "In the Bay Area, a house that was worth $300,000 a decade ago became a million-dollar

> home," said Greg Fielding, a real estate broker and blogger. "Now it is listed at $800,000." That price, he suggested, was still unrealistically high. The seller, meanwhile, doesn't want to face the fact that his or her home is too richly priced, and won't sell at a more realistic price — which may well be below his or her mortgage debt.
>
> There is also an immense amount of inventory that has yet to hit the market but will, sooner or later. People in the real estate business have taken to calling this "the shadow inventory." It consists of homes for which the owners have stopped paying the mortgage but the banks haven't foreclosed on yet, foreclosed properties that have not yet been put up for sale, homes with modified mortgages that the owners still can't afford and will soon default on and so on.
>
> Mr. Barnes describes the shadow inventory as akin to "ranks of Napoleonic infantry, rows deep, hidden in the fog." This inventory, estimated by Rick Sharga of RealtyTrac to be between three million and four million homes, is almost certain to drag down home prices for the foreseeable future. "The disinterest of buyers, in an interest-rate environment that may be the lowest ever, is striking," Mr. Barnes said. But, he added, it makes perfect sense. Since 2007, housing prices have been in a deflationary spiral, and nobody can say when it will end. "It doesn't matter if interest rates go down to 2 percent," Mr. Barnes said — buyers won't reappear in big numbers until they can see the light at the end of the tunnel.

The Administration has not yet, however, considered the most obvious "do everything we can” to affect this bleak scenario: stop the shrinkage in the number of households. If, rather than declaring victory over giving the banks more power to unwind foreclosures over time (thus creating the Napoleonic army of shadow inventory Barnes refers to), the Administration had done what was needed to actually keep people in homes, this downward spiral would be slowed, at least.

The downward spiral in housing is not going to be arrested until we’re able to keep the people who want to stay in their houses in them. But thus far I see no sign of a policy solution that will do that.