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## Stimulus' real estate incentives shrink

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**(02-12) 17:35 PST** -- The \$789 billion stimulus package may have limited impact on the very industry that brought on the economic downturn: real estate.

While the bill could increase home buying, it doesn't do nearly enough to jump-start building or stem the foreclosures that are driving down prices, many real estate observers say.

The major housing addition to the Senate's version of the package, an up-to-\$15,000 tax incentive for home buyers, was stripped from the bill on Wednesday. Real estate trade groups felt that provision had the greatest potential to reignite the market. The National Association of Home Builders projected it would increase sales by almost 500,000 and create more than 255,000 jobs.

The tax credit that survived was closer to a temporary one passed last year by Congress. It is capped at 10 percent of the home price or \$8,000, whichever is less, and restricted to first-time buyers who make purchases before Dec. 1, 2009. After some political wrangling, it was determined the money would generally not have to be repaid, preserving a key distinction of the Senate version.

"Overall, I would say this is a mild positive," said Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley. "They had the provision in there that would have led to a wildfire in demand for housing and they took it out."

The National Association of Realtors, in a prepared statement Thursday, said the final tax credit provision could stimulate 200,000 home sales. But Joseph Perkins, chief executive officer of the Home Builders Association of Northern California, said \$8,000 has a negligible effect in high-cost housing markets such as the Bay Area.

On the other hand, the stimulus bill does temporarily increase loan caps for Federal Housing Administration, Fannie Mae and Freddie Mac mortgages in expensive areas from \$625,000 to \$729,750. That effectively lowers the cost of borrowing that amount or less, providing "big help" to

markets like the Bay Area, said Robert Kleinhenz, deputy chief economist with the California Association of Realtors.

Also scaled back in the final bill was a provision that would have allowed industries, including home builders, to use 2008 and 2009 losses to offset tax liabilities going back five years, a considerable benefit for a sector that is currently cash-strapped and highly unprofitable. In the end, it was limited to small businesses with losses in 2008.

Other real estate proposals pushed by the housing industry and consumer groups - including lowering mortgage rates to around 4 percent and protecting struggling homeowners from foreclosures, respectively - never made it into final versions of the bill in either the House or Senate. In general, many were surprised that the stimulus package didn't do more to prop up the industry at the heart of the downturn.

"I don't see how we can do an economic recovery package that gives short shrift to housing," Perkins said. "The meltdown in the financial sector was driven by the collapse in housing."

It's been widely reported, however, that the Obama administration plans to push additional legislation aimed at bolstering the housing industry, probably focused on preventing foreclosures. The plan would seek to lower interest rates for struggling borrowers through government subsidies.

Chris Thornberg, economist with Los Angeles research firm Beacon Economics, said the stimulus package is necessary to help revive the economy, but that the home building industry doesn't require or deserve any special consideration.


"The housing industry broke first, but it was only a symptom of the underlying problem in the U.S. economy ... a 12-year spending binge based on overinflated values of our homes," he said.

The reconciled stimulus bill, which still must pass both houses of Congress and be signed into law by President Obama, also provides billions of dollars for renovating public housing and foreclosed homes and similar projects.

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