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THE WALL STREET JOURNAL.

WSJ.com

REAL ESTATE | APRIL 24, 2009, 8:02 P.M. ET

Tax Credit Gives California Builders a Lift

By MICHAEL CORKERY

California's hard-hit home builders say they're pouring more foundations and hiring more workers this spring, partly because of a state tax credit of as much as \$10,000 for buyers of new homes.

Nationally, the Commerce Department said Friday that new-home sales fell 0.6% to an annual rate of 356,000 units in March, a sign the free fall in new-home sales may be over. In the West, home-builder sales rose 15%, likely reflecting a boost from California's new-home credit.

Now, less than two months after the new-home credit became available, some lawmakers in California's financially strapped government are proposing to eliminate the \$100 million limit on the total amount of credits that home buyers can tap.

"We are hoping the state will lift the cap and say build as much as you want," says Matt Towery, president of Towery Homes, a builder in Bakersfield, a city with a troubled housing market. Towery has sold about 22 homes since the credit took effect March 1. In the same period last year, the company sold five homes.

Despite the industry's enthusiasm, some economists say the credit is doing little to fix what truly ails California -- one of the nation's largest residential markets -- because it doesn't encourage the sale of foreclosed houses that are weighing on prices. Economists warn that if the tax credit is expanded too much, it could exacerbate the housing glut here.

"California has thousands of foreclosed homes that need to be sold, and they are promoting the building of new homes," says Christopher Thornberg, principal at Beacon Economics, a Los Angeles-based research firm. "It's ridiculous. This credit was completely driven by the lobby of the development community."

Other states are considering their own subsidies to supplement the recently enacted \$8,000 federal credit for certain first-time buyers of existing or new homes. But California has one of the most robust tax credits targeting new-home purchases.

Passage of the California tax credit came amid the recent political showdown over the state budget. A big champion of the tax credit was state Sen. Roy Ashburn, from Bakersfield, a hotbed of home construction during the boom. The tax credit proposal helped persuade Mr. Ashburn to break with many of his fellow Republican lawmakers and support the state budget.

Mr. Ashburn, who now faces a recall campaign over his budget vote, says he supports lifting the cap on

the tax credit to allow more home buyers to qualify and to help generate more construction-related jobs.

The Californian Building Industry Association, which led the lobbying effort for the credit, estimates that each new-home sale generates \$16,000 in tax revenue from construction workers' income, as well as from sales taxes paid on appliances and furnishings, among other home-related items.

In another positive sign for the home-building industry Friday, shares of [Lennar Corp.](#) soared 15% in midafternoon New York Stock Exchange composite trading, after the big builder said that it had successfully sold \$400 million in debt, signaling a thaw in the credit markets.

About one-third of the \$100 million tax credit allocation has been already claimed, according to the state Franchise Tax Board, which administers the program. At this rate, lawmakers expect the pool could be gone by early summer, well before the program is scheduled to end in February 2010.

For home buyers, the credits mean big savings, as home prices keep falling and mortgage rates are near historic lows. Certain first-time home buyers in California can qualify for a combined \$18,000 in state and federal credits on new homes, which had a median price of \$339,990 in February.

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