

Stimulating Housing Markets¹

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February 8, 2016

¹The views expressed here are ours and do not necessarily reflect those of the US Treasury Office of Tax Analysis, nor the IRS Office of Research, Analysis and Statistics.

Extended Abstract

We estimate the effect of the 2009 and 2010 First-Time Homebuyer Tax Credit program on house purchases and prices using variation across local geographies in ex ante exposure to the program. Using data from individual income tax returns, we measure a local area's exposure to the FTTC by identifying places with more first-time buyers in a time period prior to the policy. We combine this measure with tax return data from the program window to confirm that places with higher ex ante exposure saw more people claim the credit.

Using this instrument and a difference-in-differences design, we find that the program induced a cumulative increase in home purchases in high exposure places nearly double that of low exposure places. The extension of the program in December 2009 and expiration in June 2010 allow us to rule out omitted variable concerns. We find little evidence of a sharp reversal in the post period; instead, demand appears to come from several years in the future.

The response is concentrated in existing home sales implying that the effect of the policy on GDP was likely second order. While the policy had a limited impact as direct fiscal stimulus, it sped the process of reallocating homes from distressed sellers to fundamental buyers, stabilized house prices, and enabled substantial deleveraging. We confirm that this reallocation was stable by showing low subsequent default rates for buyers during the policy period.