AEI Housing Center

Determining the Price Impact of Harris' Down Payment Assistance Proposal

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In her campaign, presidential candidate Kamala Harris proposed a $25,000 down payment assistance (DPA) to 4 million first-time buyers over four years. Harris claimed the program will help first-time buyers (FTBs) cover their down payment. However, scrutiny of the proposal reveals that rather than alleviating the housing burden on FTBs, the down payment assistance plan will harm both FTBs and repeat buyers.

In a housing market with limited supply, increasing FTB purchasing power through down payment assistance (DPA) will ultimately drive up home prices for all buyers in affected census tracts. This is because the millions of FTB program recipients would become price setters for all buyers in the neighborhoods where the recipients buy. This analysis aims to quantify this effect.

Specifically, this analysis estimates:

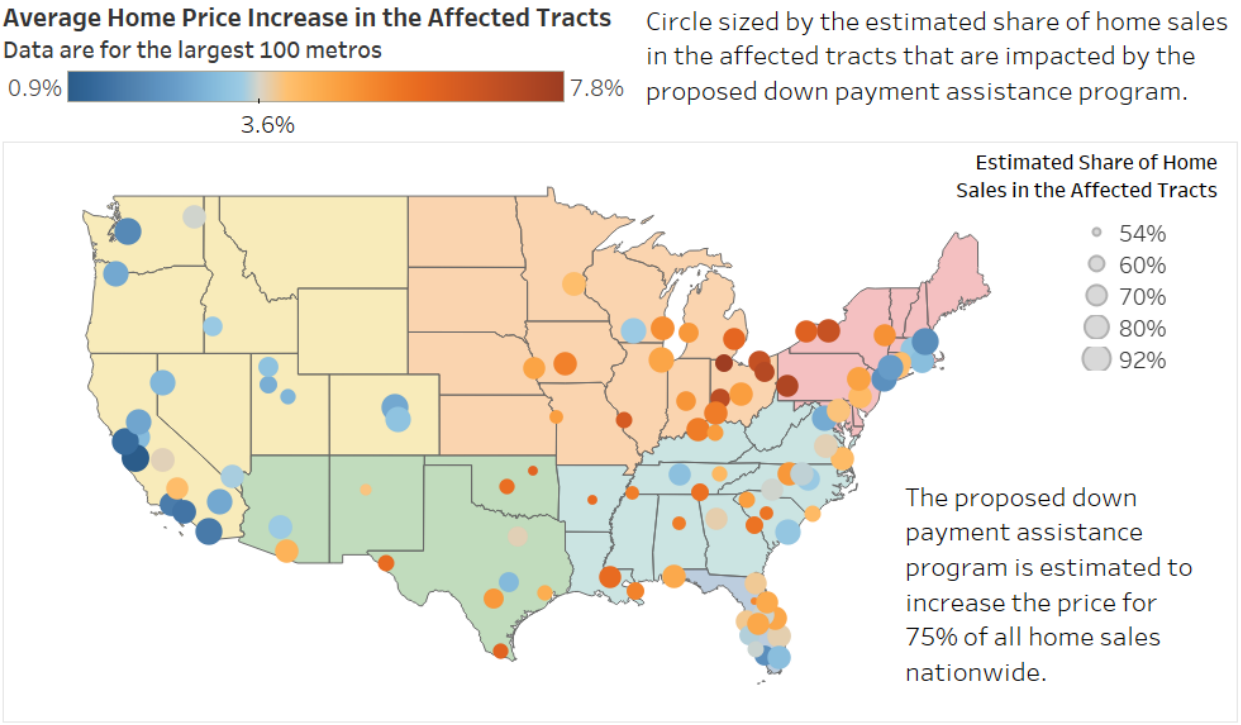
- Over the 4-year DPA period, 75% of all home sales nationally will be in census tracts affected by the proposed DPA program.
- For the homes in these tracts, constant-quality home prices is expected to increase by an average of 4.1%.[2]
- Over four years, the total boost in home prices paid by expected homebuyers in these tracts will be $177 billion. Thus, the total cost to homebuyers outweighs the proposed subsidy benefit of $100 billion ($25,000 each for 4 million homebuyers).
- The total inflationary boost to the entire stock of homes in the affected census tracts (not just those expecting to transact over a 4-year period) is estimated at $1 trillion.

The proposed DPA policy will also have disparate impact on home prices across different regions. This is because home price levels vary significantly across metros. In San Jose, CA, homes purchased by FTBs had a median price of $902,500 in 2024:Q1. The $25,000 down payment assistance is estimated to boost the buying power there by 3%. In Lexington, KY, median home price for FTBs was $280,000. The same $25,000 subsidy is estimated to boost the buying power there by 9%. Months remaining inventory also varies tremendously by metro, ranging in August 2024 from a high of 8.3 months in Myrtle Beach to 1.5

[1] The views expressed are those of the authors alone and do not necessarily represent those of the American Enterprise Institute.
[2] The Harris proposal states that recipients receive an average DPA of $25,000. Since we have no way to distribute DPA amount by geography, we have assumed that all recipients receive $25,000 in DPA. Depending on how the DPA might operate, this might modestly overstate that price impact, perhaps lowering it to around 3.6%

months in Boston. The interplay of these factors, along with FTB shares, results in a wide variance in estimated home price increase due to DPA in each market (from 0.9% to 6.1%).

The map below shows that Midwest metros will experience the largest home price increases if DPA were to take effect. This region is already experiencing above average home price appreciation due to strong supply-demand imbalance (a sellers' market). In July 2024, constant quality home prices in the Midwest rose by 6.7% from a year ago, compared to 4.9% nationwide.



This is yet another example of seemingly well-intended policies resulting in massive unintended consequences. In a housing market with historically low inventory, demand-side policies end up increasing home prices for a wide swath of buyers, not just the intended beneficiaries.

Methodology

For this study, we primarily rely on a unique dataset consisting of Public Records deed data from First American which provides information on sale price down to the property level. These data are first anonymized and then combined with Fannie Mae, Freddie Mac, and Ginnie Mae MBS data, which provides information on the first-time buyer status. We further limit the data to single-family residential homes, which drops 14% of the sample.[3] Our final dataset contains 199,400 home sales nationwide in

[3] Single-family residential includes single-family detached home, townhome, duplex, triplex, quadruplex, and condo.

2024:Q1, which represents around 40% of that quarter's entire home sales. The matched sample is weighted using home sales count from HMDA data to represent the overall market.

This analysis builds on findings from the peer-reviewed study on "*The impact of Federal Housing Policy on housing demand and homeownership: Evidence from a quasi-experiment,"* which explored the effects of FHA's 2015 Mortgage Insurance Premium (MIP) cut. Davis et al. (2020) found that a 6% increase in buying power for FHA borrowers translates into a 2.8 ppts increase in constant-quality home prices for buyers of both FHA and GSE financed homes in census tracts where 20% or more of the borrowers had FHA insured loans.[4] In a 2024 update to the paper using more complete Public Records data, we found a price increase of 3.2 ppts.[5] In these tracts, the FHA premium cut had essentially the same effect on constant-quality home prices for both FHA recipients and GSE non-recipients. This is because once the 20% threshold was met, the FHA recipients had sufficient buying power combined with market share to become the price setters. The GSE buyers had to either drop out or raise their bid.

Based on these findings, we created a simulation for the impact on home prices under the Harris plan. Like the FHA MIP cut paper, we estimate that the DPA will lead to a similar increase in constant-quality home prices for both FTB DPA recipients and non-recipient buyers in the same tract once a minimum census tract FTB share threshold is met. The difference is that the Harris plan will have a much broader reach since it affects up to 4 million FTBs over 4 years.

We make the following assumptions:

- While we assume the same relationship between increased buying power and home prices that we established in the 2024 update of the FHA MIP cut paper, we need to adjust for the fact that the DPA, up to maximum of $25,000, will have differing effects based on the tract-level home prices (e.g. it will have larger effect in lower-priced areas and vice versa).
    - The $25,000 DPA will increase the borrower's buying power by $25,000, assuming the same monthly payment and out-of-pocket down payment. For example, if a FTB originally could afford a home worth $250,000, they can now afford a home worth $275,000 (10% more) with the same monthly payment and out-of-pocket down payment, with the DPA used as an additional down payment. In the same fashion, if a FTB originally could afford a home worth $500,000, they can now afford a home worth $525,000 (5% more) with the same monthly payment and out-of-pocket down payment, again with the DPA used as an additional down payment.
- There are about 1.5 million FTBs purchasing in a given year. We call these Original FTBs.
- We assume that of the 1 million DPA beneficiaries per year:
    - 750,000 (3 million over 4 years) will be Original FTBs, who would have bought without the DPA (75% of all proposed DPA beneficiaries). We call these Original FTBs/DPA Recipients.

[4] Davis, M. A., Oliner, S. D., Peter, T. J., & Pinto, E. J. (2020). *The impact of Federal Housing Policy on housing demand and homeownership: Evidence from a quasi-experiment*. Journal of Housing Economics, 48, 101670. The study is also available as an AEI working paper.

[5] This analysis uses the same methodology as *The Impact of Federal Housing Policy on Housing Demand and Homeownership*, except (1) it uses public records data from First American rather than from ATTOM; (2) it does not control for borrower characteristics in the diff-in-diff model; (3) it has no latency issue.

        - These 750,000 Original FTBs/DPA Recipients represent roughly half of annual Original FTBs. The other 50% we call Original FTBs/Non-Recipients.
    - An additional 250,000 (1 million over 4 years) will be FTBs who advanced their plans, but would have otherwise either bought after the 4-year program term, or would have stayed renters due to a lack of sufficient down payment (combined this is 25% of all proposed DPA beneficiaries). We call these Extra FTBs/DPA Recipients.
        - These Extra FTBs/DPA Recipients will also increase housing demand and be potential price setters. Considering the home sales and total inventory as of July 2024, we can calculate the change in months' supply from these additional demand for each metro.
    - As a result, all Original FTBs/DPA Recipients and Extra FTBs/DPA Recipients need to be considered as potential price setters in a given census tract.
- As explained below, for DPA Recipients to be the price setters for the entire tract, we assume a threshold of 30% FTB share today in a given tract (consisting of both Original FTBs/DPA Recipients and Original FTBs/Non-Recipients), which translates to a 20% DPA Recipient share (consisting of both Original FTBs/DPA Recipients and Extra FTBs/DPA Recipients).
    - In a tract with 30% Original FTBs today, given our previous assumption, 50% of these Original FTBs will be receiving DPA, resulting in the share of Original FTBs/DPA Recipient being estimated at 15%. The remaining 50% (15 ppts.) will be Original FTBs/Non-DPA Recipients.
    - Further, based on our previous assumption of a 3:1 ratio of Original FTBs/DPA Recipients to Extra FTBs/DPA Recipients, one-third of 15% = 5%.
    - The addition of the Extra FTBs/DPA Recipients brings the combined DPA Recipient share up to 20% (5% plus 15%).
    - As has been noted, the FHA MIP cut study indicates that a market share of 20% or more is sufficient for FHA borrowers to set the price for all home sales in a given tract.
    - Based on the relationships noted above, we find that a 30% FTB share today (including non-recipients) translates into a 20% combined share of Original FTBs/DPA Recipients and Extra FTBs/DPA Recipients, which is sufficient to set the price for all home sales in the tract (this includes all RB homes and those FTB homes that do not receive the DPA).
    - Therefore, in those census tracts that today have FTB sales equal to or greater than 30% of tract sales, all homes in the tract will have the same increase in home prices.
- Since the proposal is expected to benefit only half of the FTBs, we account for this by assuming a randomly selected 50% of the FTBs today in each census tract will receive DPA.
- Finally, we account for the increased demand from the Extra FTBs and its effect on home prices. We assume a 1-month decrease in months' supply is associated with a 0.2% increase in month-over-month HPA based on our previous research on month's supply equilibrium point. This then allows us to convert the metro-level change in months' supply to change in home price.

Key Results

- Based on our assumptions, we estimate that among the 4 million FTBs receiving the DPA over 4 years, 3 million are Original FTBs who would have bought without the DPA, and 1 million are Extra FTBs who would have otherwise stayed renters.

- 3.7 million FTB recipients are from FTB-rich census tracts (defined as 30% or more Original FTB borrowers).
- In addition, 7.0 million non-recipients – including both repeat buyers and FTB non-recipients – also purchase in these FTB-rich census tracts and therefore experience the same price increase.
- In total, the proposed DPA program is estimated to impact 10.8 million borrowers over 4 years nationwide.
- This represents approximately 75% of all borrowers.
- The average price increase from the program is estimated to be 4.1%.
- We project a 13% growth rate in constant-quality home price in FTB-rich census tracts over the next two years (through the mid-point of the proposed program). This is slightly above our projection of 11% home price growth over the next two years, as entry-level homes tend to appreciate faster.
- Applying the 13% growth rate to the median home price in FTB-rich census tracts of $360,000 results in a median home price of $400,000 over four years. Therefore, the price increase per home purchased is estimated to be $16,400.
- When this price increase is applied to the 10.8 million affected borrowers, the cumulative increase in home prices due to the proposed program is $177 billion.
- Meanwhile, for those receiving the DPA, the DPA cost is $100 billion. Thus, the cost of the program far outweighs the benefit.
- The total inflationary boost to the entire stock of homes in the affected census tracts (not just those expecting to transact over a 4-year period) is estimated at $1 trillion.