

Markets

Harris Has a Plan to Raise Homeownership. Builder Stocks Rejoice

- VP program includes down-payment assistance, home construction
- Rate-cut bets also help homebuilders crush S&P 500 since July



Homes under construction at a housing development in Rancho Cordova, California. *Photographer: David Paul Morris/Bloomberg*

By Norah Mulinda and Peyton Forte

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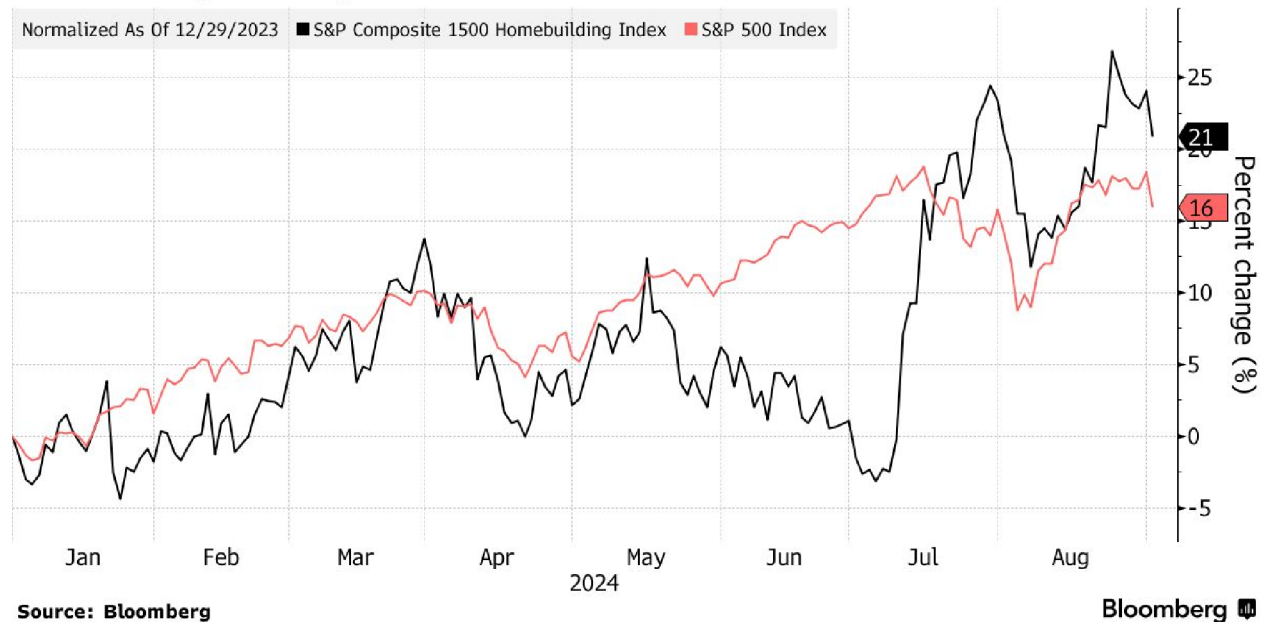
Homebuilding stocks are on a tear with the Federal Reserve expected to start cutting interest rates in a matter of weeks. And the group is catching an additional tailwind from Vice President Kamala Harris' plans to support the US housing market if she wins the presidential election in November.

Since the start of the third quarter, homebuilders are the fifth-best performing group out of 158 in the S&P 1500 Composite index, rising 20% to trade near an all-time high. Meanwhile, DR Horton Inc. is the third best performing stock in the S&P 500 Index over that time after soaring 31% in

two months, while rival Lennar Corp. is 45th with a 19% gain. For the year, homebuilder shares are up 21% compared with a 16% rise in the S&P 500.

Homebuilders Surge on Rate-Cut Bets

Sector is outperforming the broader market



Mortgage rates are already coming down – Freddie Mac data shows 30-year fixed-rate mortgages at 6.35% as of Aug. 29 compared with 6.95% as of July 4. So there are solid reasons to believe the momentum can continue for homebuilding stocks with the Fed expected to enter a significant rate-cutting cycle.

But the housing industry's most important, and uncertain, variable may be the November presidential election.

Democratic nominee Kamala Harris is proposing to juice the residential real estate market with as much as \$25,000 in down-payment assistance for some first-time homebuyers, a program to encourage construction of three million new housing units, and incentives to build more starter homes. The policies, which go further than what President Joe Biden was proposing, would prod local governments to reduce obstacles to construction, bringing down development costs. And they would discourage large scale investors from buying single-family rentals.

Read More: [Harris to Propose \\$25,000 Assistance for First-Time Homeowners](https://www.bloomberg.com/news/articles/2024-09-04/harris-has-a-plan-to-raise-homeownership-builder-stocks-rejoice?srnd=undefined)

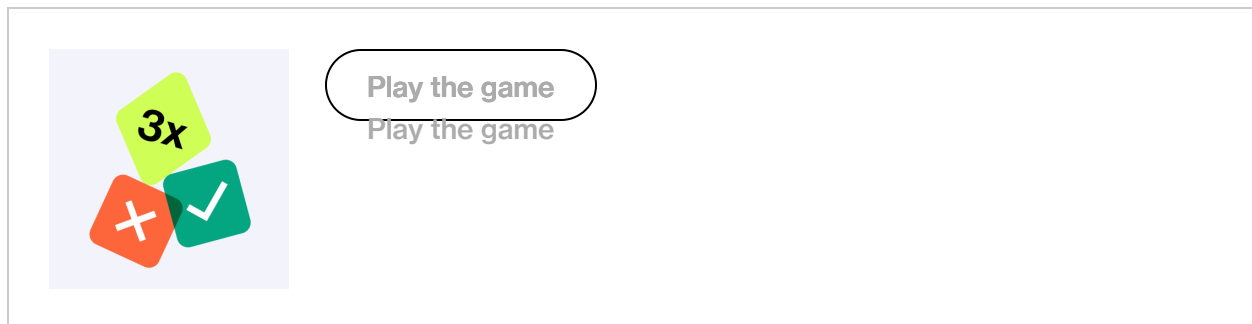
Since details of Harris' plan started to trickle out after the market closed on Aug. 15, the homebuilders index has climbed 4.5% while the S&P 500 is down slightly.

Election Risk

“Most of these provisions have carve-outs to promote the development of new housing supply, as well as protecting existing renters by maintaining tax benefits on homes already owned by large single-family rental operators,” Buck Horne, Raymond James Financial Inc. housing analyst, wrote in an Aug. 16 note.

Of course these plans face plenty of risks, not least of all being Harris winning an election that appears to be a toss up and getting a favorable Congress as well. These aren't programs that can be set through executive orders, so support from the Senate and House of Representatives will be needed.

The Harris campaign offered no further comment beyond what the candidate said when she announced her plan at an Aug. 16 rally in Raleigh, NC.



Republican presidential candidate Donald Trump has also identified homeownership as a key issue, and the GOP platform proposes a mixture of tax incentives and regulatory changes to stimulate the housing market. Karoline Leavitt, a spokeswoman for Trump's campaign, referred inquiries to a statement she made to Bloomberg News last week that said the former president “has a real plan to make purchasing a home dramatically more affordable,” including by slowing federal spending and “eliminating” some regulations.

Focusing on regulation makes sense, as the National Association of Home Builders estimates federal regulations account for nearly 25% of the building costs for a single-family home. Key companies that build homes for first-time buyers include DR Horton, Lennar and KB Home, according to Bloomberg Intelligence analyst Drew Reading.

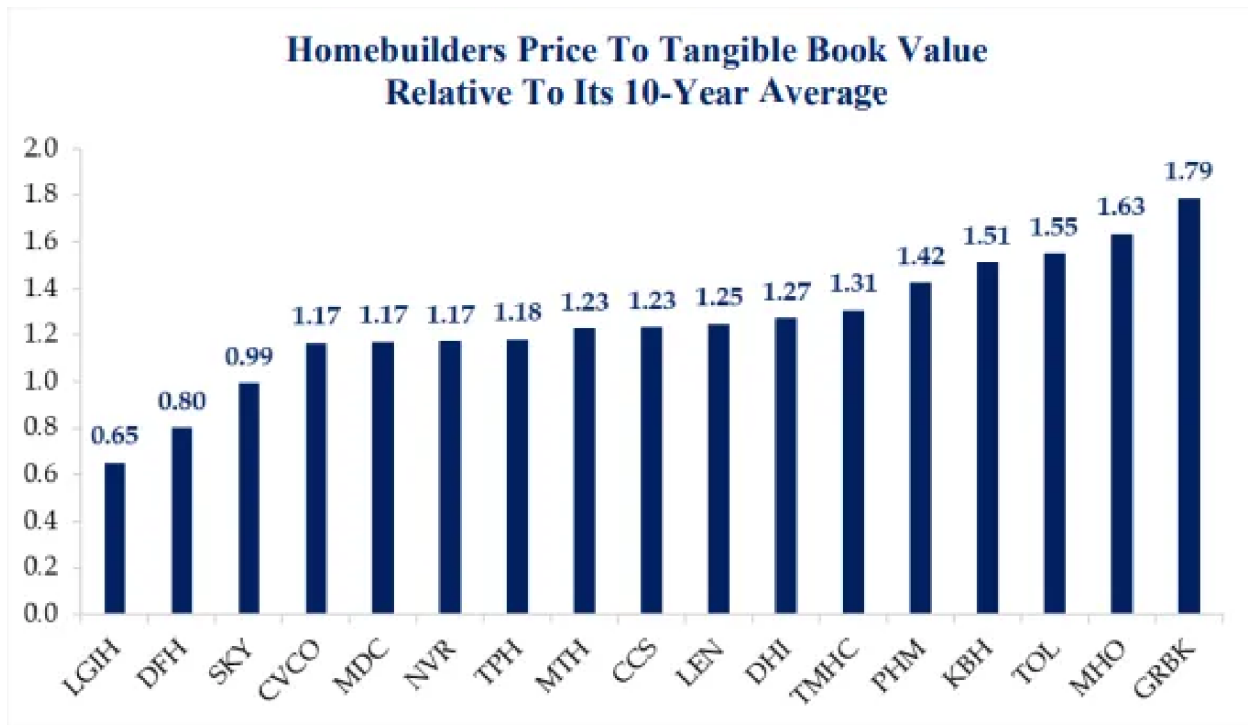
“Strength at the low end is important for housing as it spurs activity at higher price points as well,” Reading said.

However, some strategists warn of the unintended consequences from policies that quickly boost demand in a supply constrained market.

“More bidders means higher prices,” wrote TD Cowen analyst Jaret Seiberg in an Aug. 19 note. “Our view is that such programs also produce little benefit despite costing a lot of money.”

Priced In

As for the stocks, much of the anticipated benefits from efforts to boost the housing market are already priced in, according to Ryan Grabinski, an investment strategist at Strategas Securities. Homebuilders like KB Home and Toll Brothers Inc. are trading above their 50-day moving averages, a key technical level, and are expensive relative to their 10-year average price-to-tangible-book-values.



Source: Strategas Securities; Data as of 8/9

“A next leg higher in the housing market would likely need to come from an improvement in the labor markets,” Grabinski said.

What’s more, the underlying housing environment is far from enticing for Americans looking to move. Borrowing costs remain at multi-year highs and the resale inventory is limited because homeowners are reluctant to sell when their mortgages are fixed at dramatically lower rates. So it’s hard to find a home, much less one that’s affordable.

Read More: Real Estate Market Is Broken for Everyone Except the Ultra Rich

New construction helps, but sticker shock is still real. And even with the Fed expected to start cutting its benchmark interest rate at the meeting culminating on Sept. 18, some economists suspect it will take much deeper interest-rate cuts to nudge reluctant buyers and sellers off the sidelines.

“It’d be good judgment to hold off and get a clear sense of where things are going, both in terms of interest rates, but also the outcome of the election and what policy is likely to follow,” said Dean Baker, senior economist at the Center for Economic and Policy Research.

Nonetheless, as mortgage rates drift lower and homebuyers accumulate the resources to buy a house, home-building activity should revive. And Harris' rapid ascent in the polls could have housing investors looking at an encouraging setup for stock prices over the longer-term.

“I expect we’ll see declining short-term and then long-term rates, and the 30-year mortgage very likely coming down around 6% or below by the end of the year,” Baker said. “That’s an environment in which I think it’s very likely you will get some pro-construction legislation.”

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