The Cross-Section of Housing Returns

By Halket, Loewenstein, and Willen

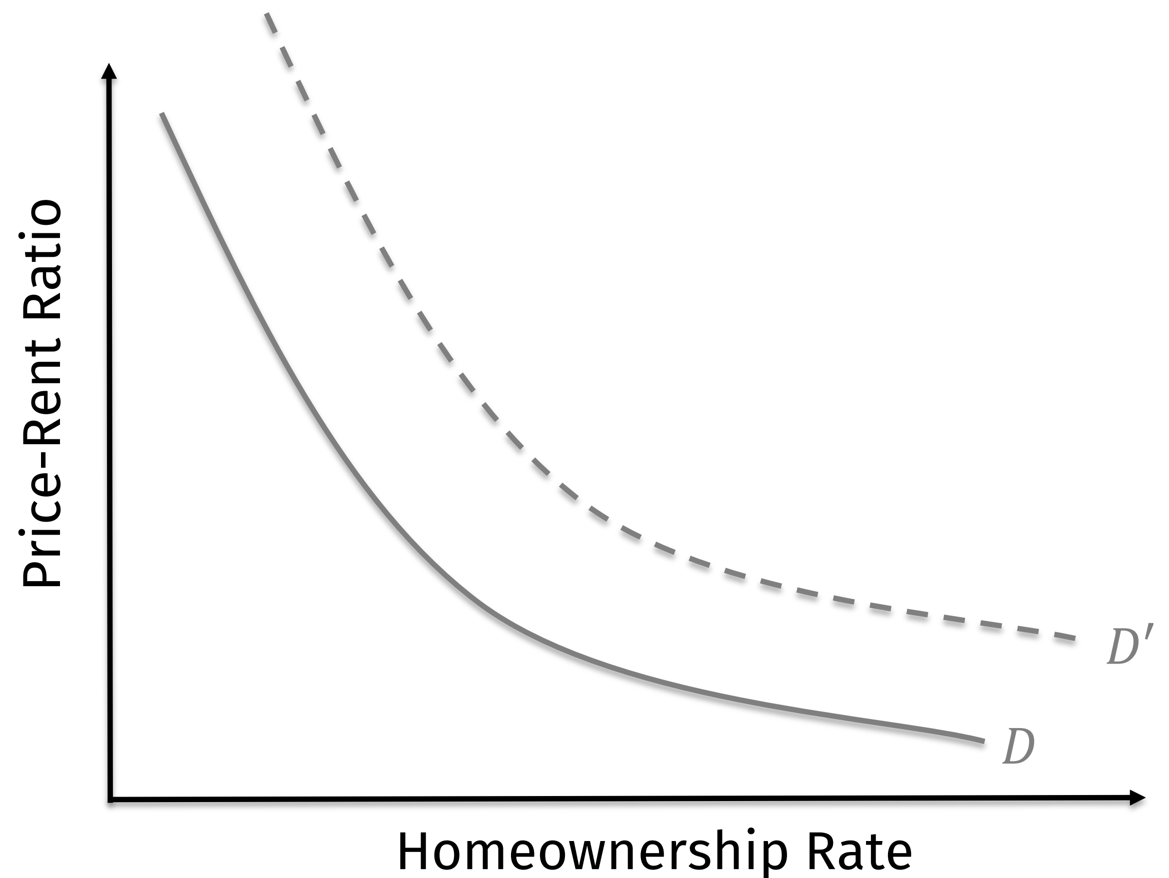
Discussion by Dan Greenwald

Overview

- New empirical measurement of rental yields and returns
  - Variation by geography (ZIP) and time
- Main result: returns and yields vary with area characteristics
  - Decreasing in income and credit score, increasing in Black share
  - Paper argues that this is due to differential access to credit
- My evaluation: important, well-executed paper
  - Concern (I won't discuss) would be if relative unobservable quality of owned vs. rented units differs across geography
  - This discussion: what are the economic implications of results?

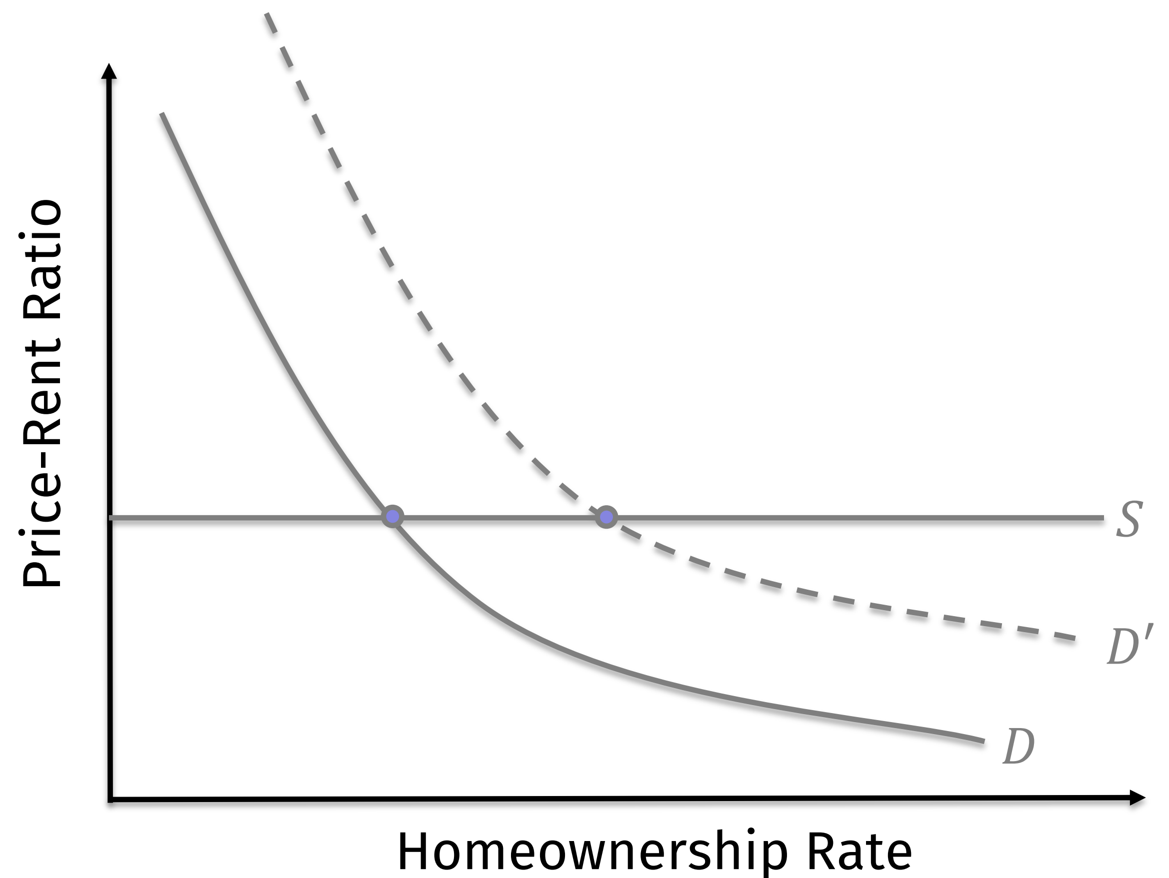
Intuition: Supply and Demand

- Supply/Demand intuition following Greenwald and Guren (2023)
- Demand for owning vs. renting is a downward sloping price schedule
- Price-rent is relative price
- Homeownership rate is relative quantity



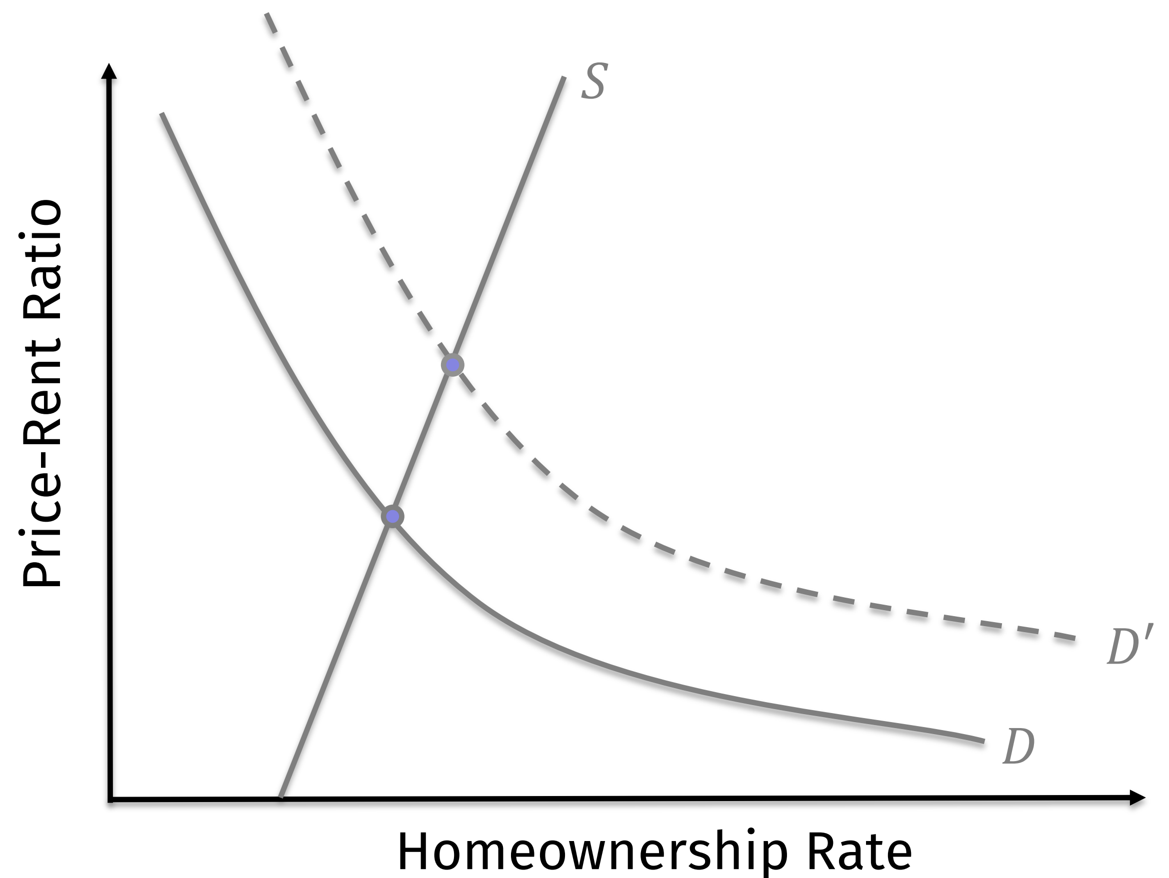
Intuition: Supply and Demand

- Equilibrium matches demand from households with “supply” from investors or landlords
- In absence of segmentation, this is flat (single reservation price)
- Changes in demand (e.g., credit) shift homeownership but not price-rent ratio



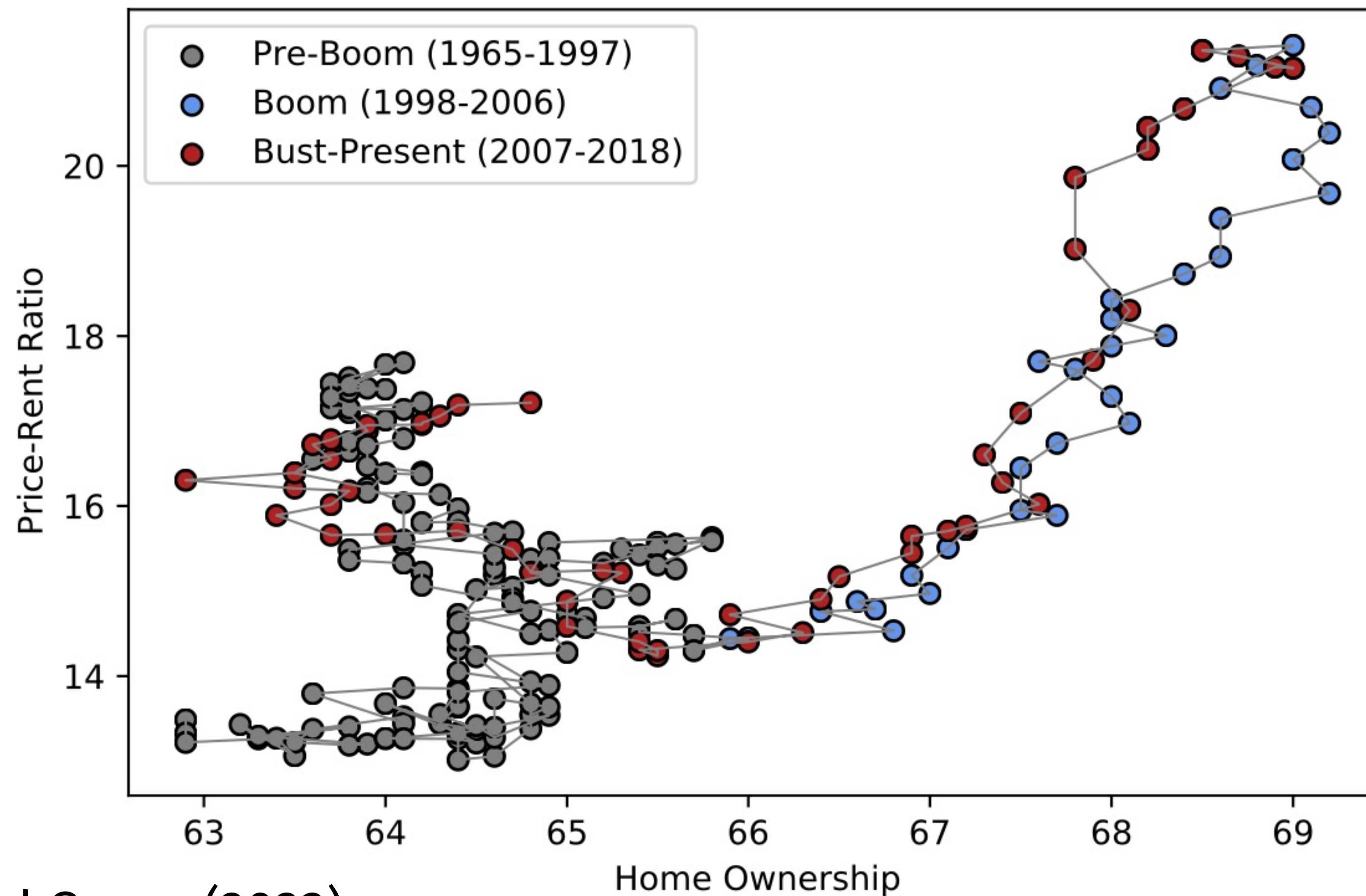
Intuition: Supply and Demand

- In a world with segmented markets or frictions, landlords may not set a single reservation price
- Example: variation in unit suitability for renting
- In this case changes in demand will affect homeownership and the price-rent ratio (yield)



Time Series Variation

- Lots of variation in price-rent in the time series



Source: Greenwald and Guren (2023)

Time Series Variation

- Same pattern holds using identified credit shocks

25
20
15
10
5
0
-5

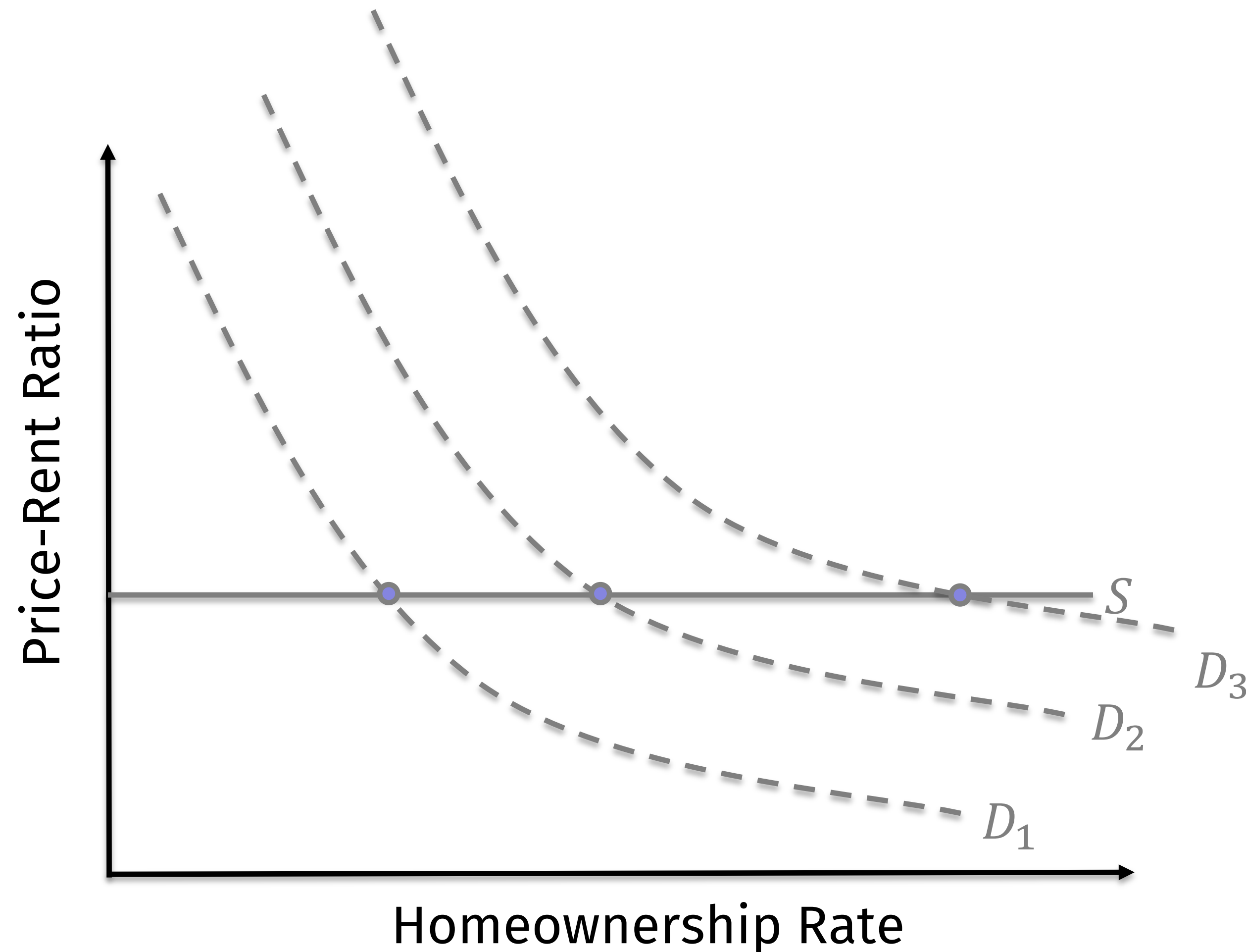
0 1 2 3 4 5

● Price/Rent △ Homeownership

Source: Greenwald and Guren (2023)

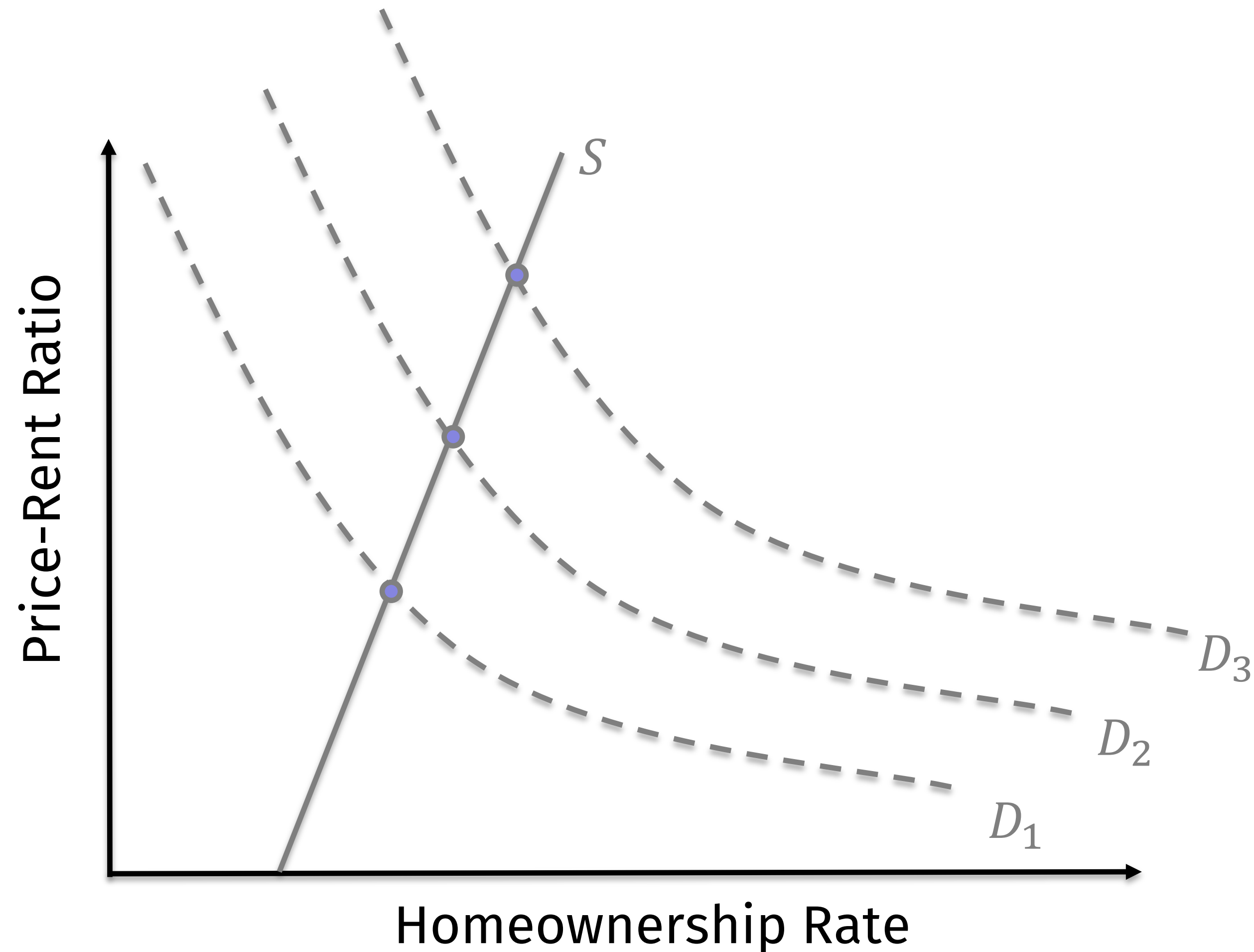
Geographic Variation

- This paper: what if credit conditions vary across areas?
- Different areas will have different demand schedules
- But in a world with no segmentation, this will not matter for price-rent ratio
- This is not what the authors find!



Geographic Variation

- Instead, authors find that areas with low credit scores, incomes, etc. have lower price-rent ratios (higher rental yields)
- I believe these areas also have lower homeownership, consistent with plot
- Evidence in favor of segmented markets



Comment #1: Implications of Results

- Results do a lot more than confirm existing findings
  - Tell us something about the **mechanism** behind segmentation
  - Why? Geographic differences likely highly persistent/permanent
- Many stories would imply segmentation in short run, undone by adjustment in medium or long run
  - Limited investment capital available to landlords/investors
  - Specialized construction to build the “right” type of housing
- **Persistent differences** imply that geographic or population attributes play an important role

Comment #2: the 2000s Housing Cycle

- My past work argued that much of the housing boom was driven by (or allowed by) relaxed **payment-to-income constraints**
  - Larger booms in areas with high house prices relative to income
- This paper argues that price-rent ratios converged across low-credit and high-credit areas over the boom period
- What role did payment-to-income mechanism play?
  - House prices, incomes, both lower in low-credit areas, not clear to me whether constraint would be tighter or looser
  - Or is this a separate mechanism based on **credit scores** (either interest rates or market exclusion)?

Conclusion

- Great empirical exercise using novel measures of rental yields to find large systematic differences across areas
  - Much higher yields in low credit score, high Black pop. Areas
- Important not only for impact on inequality, but also for understanding frictions in the housing market
  - Further evidence of **segmentation** in housing markets
  - Appears to be **permanent characteristics**, not adjustment costs
- Would be interesting to dig deeper into boom-bust period
  - Is this subsumed by PTI, or a separate mechanism?