Implications 00 Conclusion O

Some Thoughts on Housing Affordability

Paul Willen

Federal Reserve Bank of Boston, Harvard and NBER

Workshop on the Appropriate Government Role in U.S. Mortgage Markets April 27-28, 2017

These notes reflect the views of the author and don't necessarily reflect the official positions of the Federal Reserve Bank of Boston or the Federal Reserve System.

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Affordability

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Intro ○● Recent Patterns

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Conclusion O

Disclaimer

• I am speaking today as a researcher and as a concerned citizen

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• When I say "we", I don't mean Janet and me.

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Conclusion O

Recent Trends in House Prices

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ECONOMY | ECONOMIC DATA

Rising Home Prices Raise Concerns of Overheating

Dearth of new construction and strong demand from buyers are pushing up prices



The supply of homes for sale in March was down 6.6% from a year earlier. Above, a home for sale in Andover, Mass., last year. PHOTO: ELISE AMENDOLA/ASSOCIATED PRESS

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• House prices have returned to peak



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- House prices have returned to peak
- Relative to income,
 - Well below peak
 - High compared to 2000.



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Recent Trends in House Prices

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ECONOMY | ECONOMIC DATA

Rising Home Prices Raise Concerns of Overheating

Dearth of new construction and strong demand from buyers are pushing up prices



- House prices have returned to peak
- Relative to income. •
 - Well below peak
 - High compared to 2000.
- Are priced overheating?

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Conclusion O

Price to rent ratio

• Price to rent ratio

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Conclusion O

Price to rent ratio

- Price to rent ratio
- Difficult to calculate
 - Properties are different

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Conclusion O

Price to rent ratio

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- Difficult to calculate
 - Properties are different
- Use matched sample of property records and MLS
 - For income properties, MLS reports rental income
 - Property records record sale price if sale occurs

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- Great boom of 2000s was in P/R ratio



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Price to rent ratio

- Price to rent ratio
- Difficult to calculate
 - Properties are different
- Use matched sample of property records and MLS
 - For income properties, MLS reports rental income
 - Property records record sale price if sale occurs
- Great boom of 2000s was in P/R ratio
- Unlike *P* or *P*/*Y*, *P*/*R* returned to pre-crisis level



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Affordability



- Increase in *P* is due to
 - 1. Increase in income
 - 2. Increase in rent/income

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Affordability



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Implications 00 Conclusion O

Affordability



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Implications 00 Conclusion O

Affordability



- Increase in P is due to
 - 1. Increase in income
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- But *not* in price/rent ratio.

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Implications 00 Conclusion O

Affordability



- Increase in P is due to
 - 1. Increase in income
 - 2. Increase in rent/income
- But *not* in price/rent ratio.
- Rising rents are the issue.



Recent Patterns

Implications •0 Conclusion O

Policy

- Households need a flow of housing services
 - Efficiency gains from owning a stock of housing

Rent

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Intro 00	Recent Patterns	Implications ••	Conclusion O
		Policy	
Rent	Own	 Households need a flow of housing services Efficiency gains from owning a s of housing 	g itock

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		 Households need a flow of services 	housing
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Recent Patterns

Implications •0 Conclusion O

Policy

- Households need a flow of housing services
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Rent





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Recent Patterns

Implications •0 Conclusion O

Policy

- Households need a flow of housing services
 - Efficiency gains from owning a stock of housing

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- Housing finance:
 - Allows ownership of stock
 - Payment of flow

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Own

Rent

Recent Patterns

Own

Implications •0 Conclusion O

Policy

- Households need a flow of housing services
 - Efficiency gains from owning a stock of housing
- Housing finance:
 - Allows ownership of stock
 - Payment of flow
- Gordon growth formula

 $\frac{\mathsf{Price}}{\mathsf{Rent}} = r - g \Rightarrow \mathsf{Rent} = (r - g) \times \mathsf{Price}$



Recent Patterns

Implications •0 Conclusion O

Policy

- Households need a flow of housing services
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 $\frac{\mathsf{Price}}{\mathsf{Rent}} = r - g \Rightarrow \mathsf{Rent} = (r - g) \times \mathsf{Price}$

- Example of housing finance
 - 1970s high inflation (high g)
 - Reduced amortization loans





Rent



Own

Recent Patterns

Implications

Conclusion 0



• Housing finance can help here

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Recent Patterns

Implications 0 Conclusion 0

Policy

• Housing finance can help here

• If high rents are the problem

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Recent Patterns

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Policy

• Housing finance can help here

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- If high rents are the problem
- Housing finance cannot help mucvh

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Recent Patterns

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Policy

• Housing finance can help here



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- If high rents are the problem
- Housing finance cannot help mucvh
- Is this the solution?



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The slide you've all been waiting for...

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Implications 00 Conclusion •

The slide you've all been waiting for...

• The end.

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