



Guanghua School of Management  
Peking University

# Discussion of “The Missing Home Buyers: Regional Heterogeneity and Credit Contractions” by Pierre Mabilie

Yu Zhang

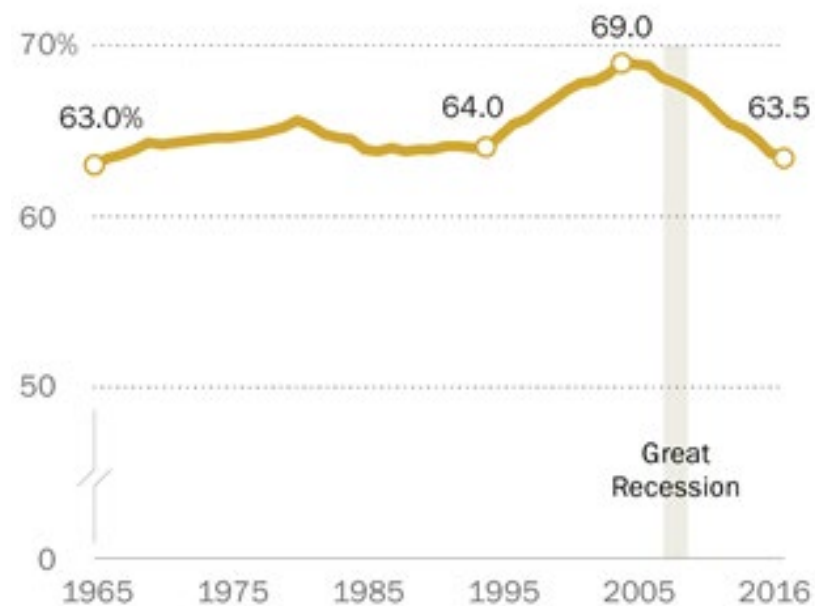
ABFER Conference 2021

# Summary

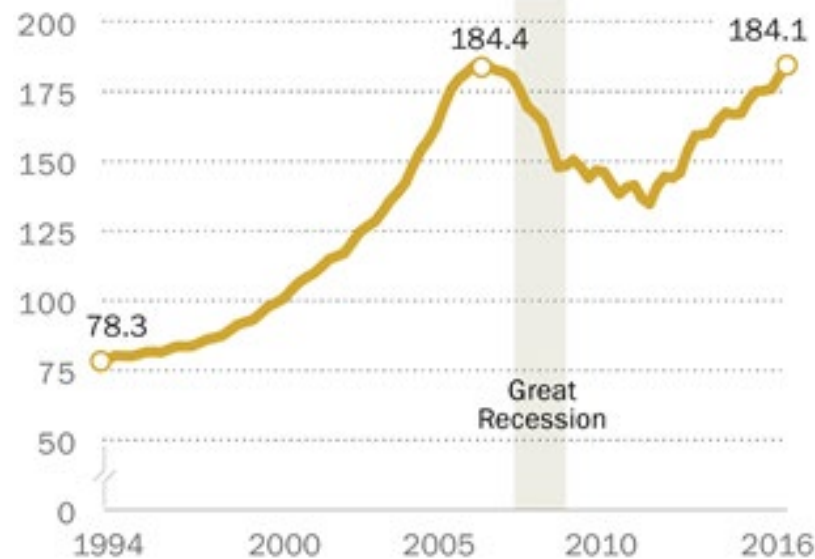
Very impressive paper. **Research question:**

A protracted slump in the U.S. homeownership rate. Why?

*% of households owning home*



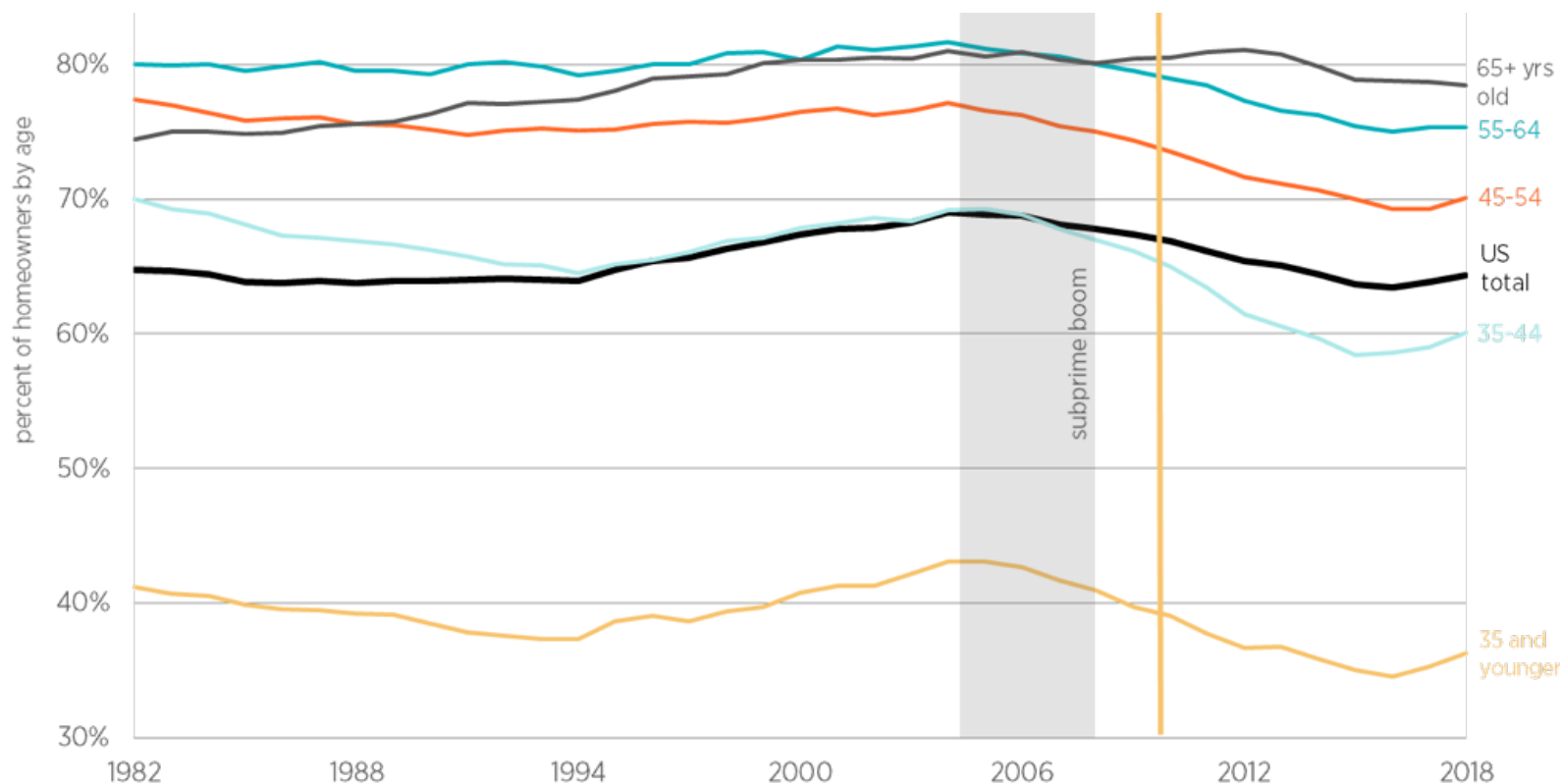
*S&P/Case-Shiller U.S. National Home Price Index, Jan 2000=100*



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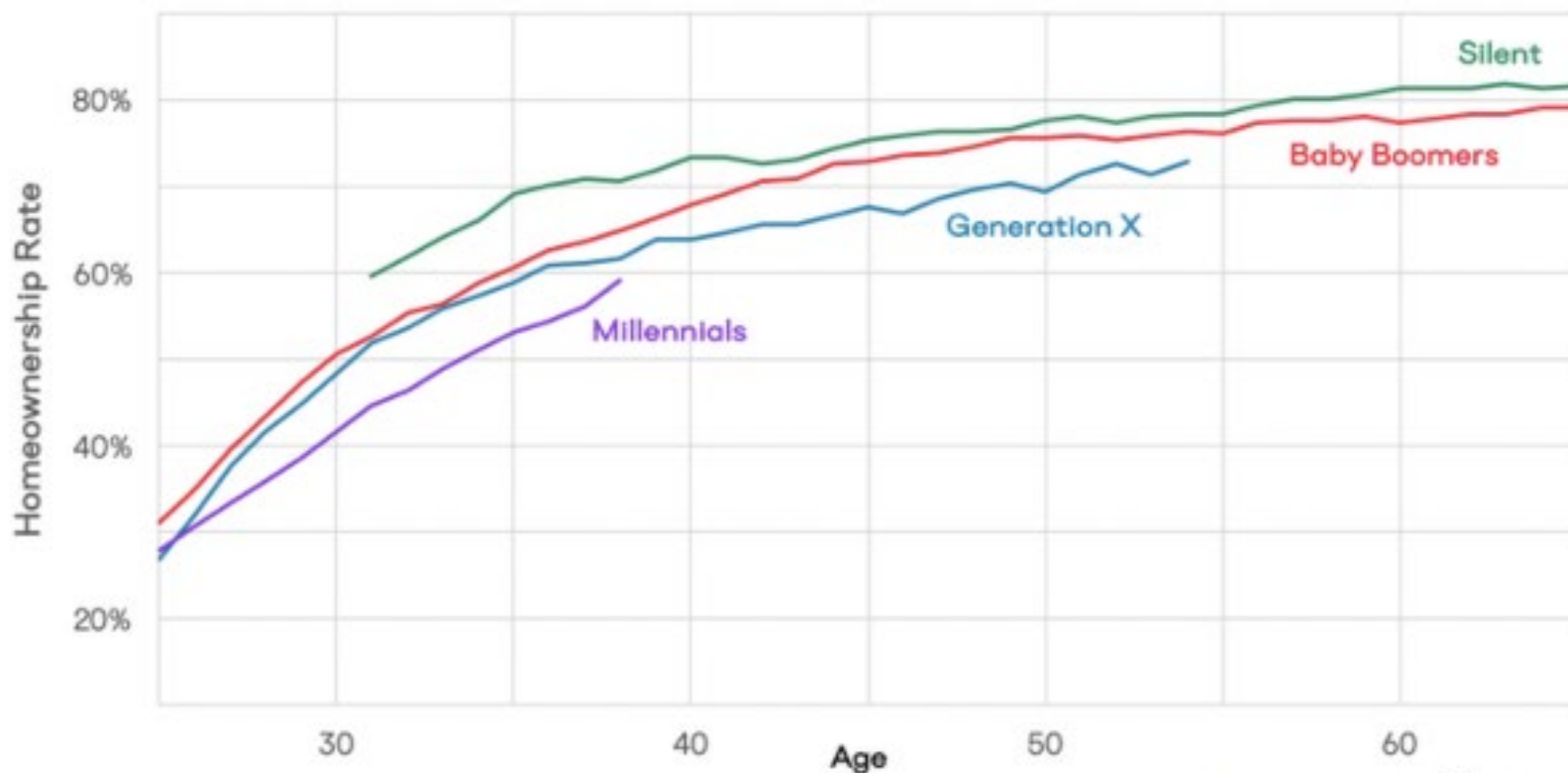
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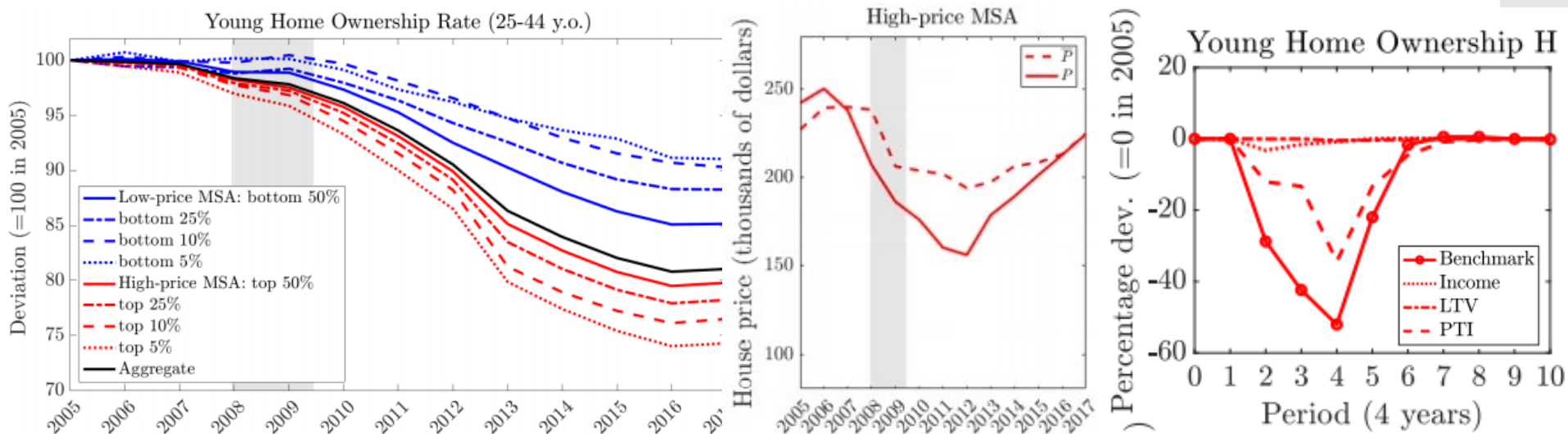


Source: US Census Bureau, Current Population Surveys, 1976-2019

Apartment  List

# Summary

**Main fact: Slump in young homeownership rate driven by high price cities (H)**



**Paper's explanation:**

1. H has high price-to-income (both in data and in spatial equilibrium)

-> PTI binds more than LTV in high price cities (both in data and in life-cycle model)

2. H income is very procyclical ( $\beta_H > 1$ )

-> PTI tightens greatly in recessions; scarring, student debt amplify this explanation

**Policy prescription: FTHC is welfare-improving; but can do better if more subsidy in H**

# This paper shows

that housing research has gone a long way in the last 20 years.

- Ortalo-Magne & Rady (1999) study shifts in homeownership rates of young households in the UK, offer an explanation based on income and credit market shocks
- However, OMR could not consider the quantitative performance of their explanation (it is a pure theory paper), nor can it consider the option to move to lower price regions, where regions differ in amenities (spatial equilibrium)
- This paper has a heterogeneous-agent life-cycle model with idiosyncratic and aggregate shocks while embedding a spatial equilibrium, can be used to evaluate the contribution of almost all channels proposed in the popular press: preference for amenities, preference for homeownership, leverage, student debt, you name it

# Comment 1 – Price-to-Rent

- The decision to own or rent depend intuitively on the relative cost of doing so. It seems that the price-to-rent ratio matters for the ownership decision
- Is the price-to-rent ratio higher in high-price regions compared to low-price regions? Table 1 on p.29 & Table 4 on p.33. suggests yes.
- Does the price-to-rent ratio have different trends in regions?
- Do the aggregate shocks generate different trends in regions in the model? (Fig.8 on p.39, Fig.A30 on p.84 suggest yes)
- What is the role of the price-to-rent ratio

# Comment 2 – OOT demand

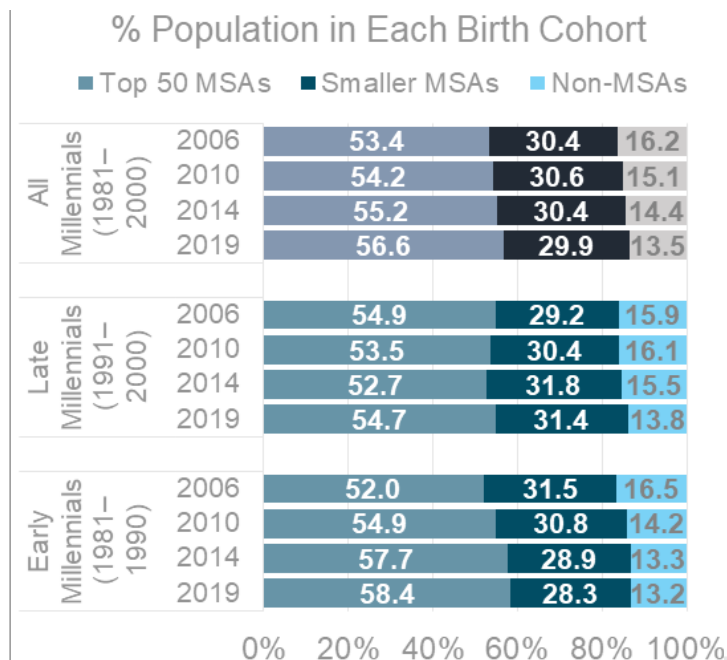
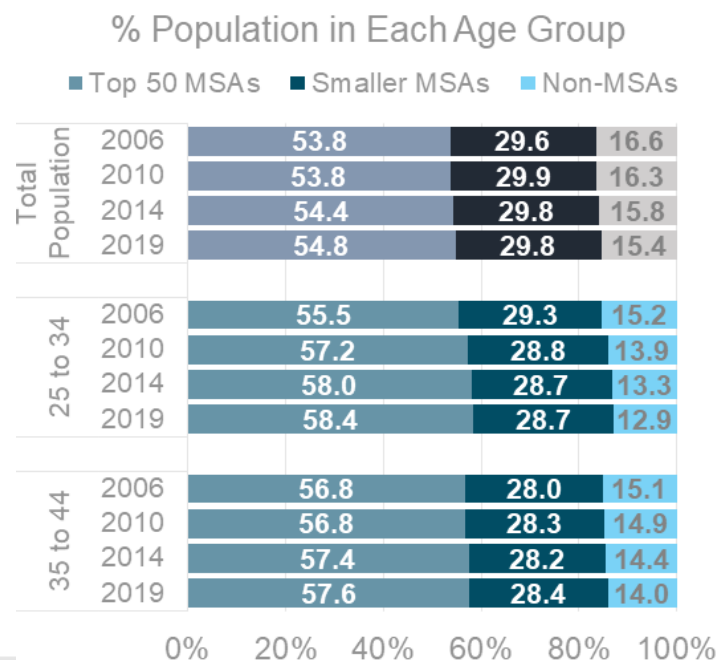
- Out-of-town (OOT) demand became unprecedentedly more important after 2005, and concentrates in high-price cities.
- Faviluskis and Van Nieuwerburgh (JF 2021) and Deng, Liao, Yu and Zhang (2021) show that OOT demand may affect the price-to-rent ratio.
- Is there any need to think about the potential effect of OOT demand on the youth homeownership rate among the locals? Can OOT demand, via house prices and rents, also be a factor for the missing homebuyers?



# Comment 3 – Preference for amenities

The urban literature suggest that amenity benefits may be cohort and age dependent. (compared to the model setting currently on page 18).

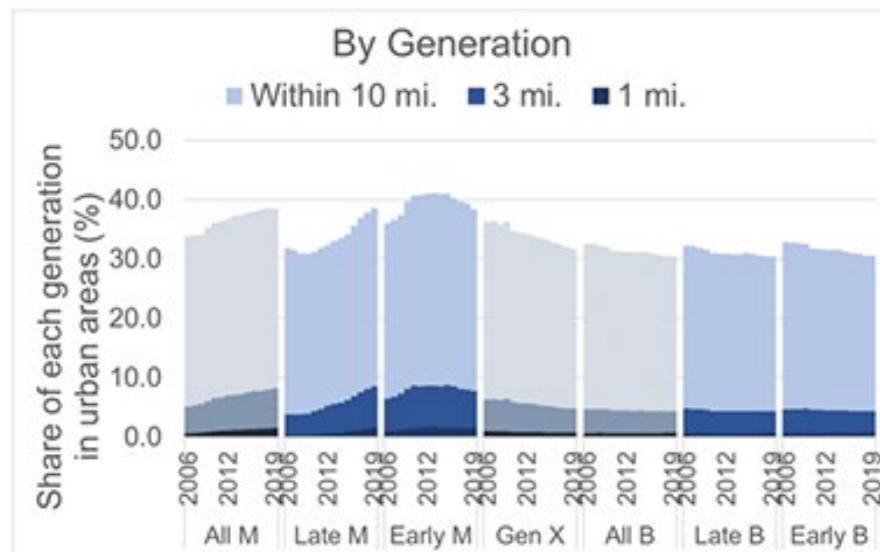
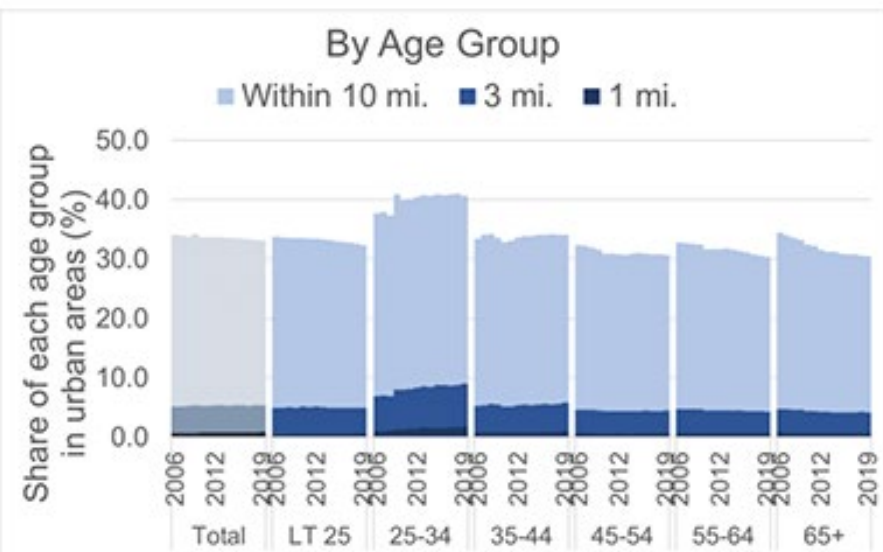
“While some big cities like New York and Chicago recently experienced population decline, the top 50 metros in aggregate have attracted greater shares of young adults and millennials over time.”



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“one of the changes that this generation has brought about, or at least has accelerated, is urban revival. In recent decades, many city centers experienced a resurgence, and the concentration of young adults in urban centers was one of the major drivers....”



# Comment 3 – Preference for amenities

Together they and anecdotes suggests that millennials and the current youth may value H regions more than previous cohorts.

Given page 26, may be feasible in the model. Or, the paper can strengthen survey evidence in p.75 (currently the survey evidence supports that the additional benefits to own is not cohort-dependent; maybe can show that additional benefits to high-price cities is not cohort-dependent)

# Minor Comments

- P.36 v.s. p.30: are the panel (CBF: which years?) estimates of regional sensitivities to aggregate income shocks good reflections of income shocks to regions in the Great Recession?
- Robustness to period length (4 years. Can be shorter hence more opportunities to save out of borrowing constraint similar to Moll, 2014?)

# Conclusion

- In sum, the paper is very impressive and represents state-of-the-art in the housing literature.
- Clever settings of this paper's model can be applied in many new papers
- I enjoyed reading it and learned a lot.  
Best of luck in the publication process!