1. IMF'S LATEST HOUSING MARKET ASSESSMENTS

- **Qatar (Article IV):** "Developments in the real estate market and the related price movements warrant vigilance. The real estate price index fell by about 10 percent in 2017 (year-on-year basis) following cumulative increase of 53 percent during 2014–16, reflecting increased supply of new properties and lower effective demand. Though banks have substantial loss absorption capacity in terms of capital and loan loss provisioning, a sharper decline in property prices presents a risk to the banking system given its sizable exposure to the real estate sector. While the banking sector can withstand even a very sharp deterioration in real estate prices and rise in NPLs (…), in its supervisory role, QCB should periodically revisit the existing macroprudential measures, such as real estate exposure limits, loan-to-value and loan-to-deposit ratios and recalibrate these as needed to ensure that they are sufficiently countercyclical. Enhanced real estate statistics would facilitate monitoring of developments in the sector," says IMF's latest report on Qatar.

- **Netherlands (Selected Issues Paper):** "(…), apart from the conventional fundamental demand and supply factors, the interaction of various institutional and structural factors seems to have contributed significantly to high and rapidly rising house prices in the Netherlands. The large direct and indirect subsidies for social housing and the highly regulated rental market is likely skewing housing needs and use in the Netherlands. The coexistence of a well-developed mortgage market and large tax preferences for owner-occupied housing and mortgage debt seems to have further fueled the surge in demand for homeownership and household debt. In addition, the sluggish response of housing supply exacerbated the situation by failing to cushion the impact of demand pressures", says IMF's latest report on Netherlands.

- **Romania (Article IV):** "(…), vulnerabilities arise from the high exposure of banks to the real estate sector and sovereign debt. Real estate exposure rose with housing loans increasing from 21 to 54 percent of household loans between 2008 and 2017. These mortgage contracts (mostly at variable rates) expose banks to credit risks in the event of sharp increases in interest rates. The effectiveness of existing macroprudential tools on mortgages is undermined by the Prima Casa program, which allows loan-to-value ratios up to 95 percent”, says IMF’s latest report on Romania.

- **Switzerland (Article IV):** “Private sector leverage and real estate exposure is high. The growth rate of mortgage claims has slowed from a high base, but these claims increase by about 5 percentage points of GDP per year. Liquidity and capital of domestically-focused banks exceed regulatory minima, and profits have held up despite narrowing interest spreads. Following a series of macroprudential tightening measures during 2012–14, property prices subsequently stabilized, but have risen again recently alongside moderating mortgage interest rates. Reflecting their status as attractive global cities and internationally-traded assets, property prices in Geneva and Zurich have been among the fastest growing in the world. However, standard housing-price metrics do not indicate significant misalignment. Newer-vintage mortgages appear riskier, with nearly half exceeding indicative affordability thresholds and also carrying higher loan-to-value ratios, especially those for purchasing investment properties”, says IMF’s latest report on Switzerland.

2. ARE HOUSE PRICES AND HOMEOWNERSHIP MOVING IN TANDEM?

In this interview, Carlos Garriga and Pedro Gete talk about their latest research: "Housing Recoveries without Homeowners: A Global Perspective." Garriga is a Vice President at the Federal Reserve Bank of St. Louis. Gete is a Finance Professor at IE Business School.

Hites Ahir: "*Housing Recoveries without Homeowners: A Global Perspective*" is a blog that you recently co-authored with Daniel Eubanks (Federal Reserve Bank of St. Louis). What triggered your interest to work on this?

Carlos Garriga and Pedro Gete: Housing markets and housing finance are at the center of our research in macroeconomics. Housing played a key role in the lead up to the Great Recession, but also in the aftermath. Most of the new research has focused on analyzing that boom-bust cycle, ignoring the recovery period. We wanted to study what happened to housing markets after the Great Recession, and we found some new patterns that are surprisingly strong across countries.

Hites Ahir: What did you find?

Carlos Garriga and Pedro Gete: In the postwar period, booms in house prices have been accompanied by sizeable increases in homeownership; that is, an increase in the number of households that own the house they occupy. Historically, these two series have usually been positively related. Our research, however, finds an important change in the correlation between these series in the post-Great Recession period for a large number of countries, including the United States. We currently observe a decoupling of house prices and homeownership.

This shift changes the traditional cyclical view of homeownership and house prices. Normally, during a recovery, households buy houses, driving up house values. In the post-Great Recession period, however, we see global increases in house prices and decreases in homeownership. Thus, we identify a new stylized fact that decouples the variables, hence the title "Housing Recoveries without Homeowners."

Hites Ahir: Is this good news or bad news?

Carlos Garriga and Pedro Gete: Well, the ownership of housing wealth is becoming concentrated among a smaller number of individuals. Whether this is good or bad news is difficult to assess, as we are still in the early stages of the research project documenting these novel facts. It is essential to understand the key driving forces before assessing the welfare effects and prescribing particular policies. The key issue is that in many countries and cities, the focus of the policy debate has changed: households are complaining that "rents are too high," when the usual complaint used to be that "prices are unaffordable."

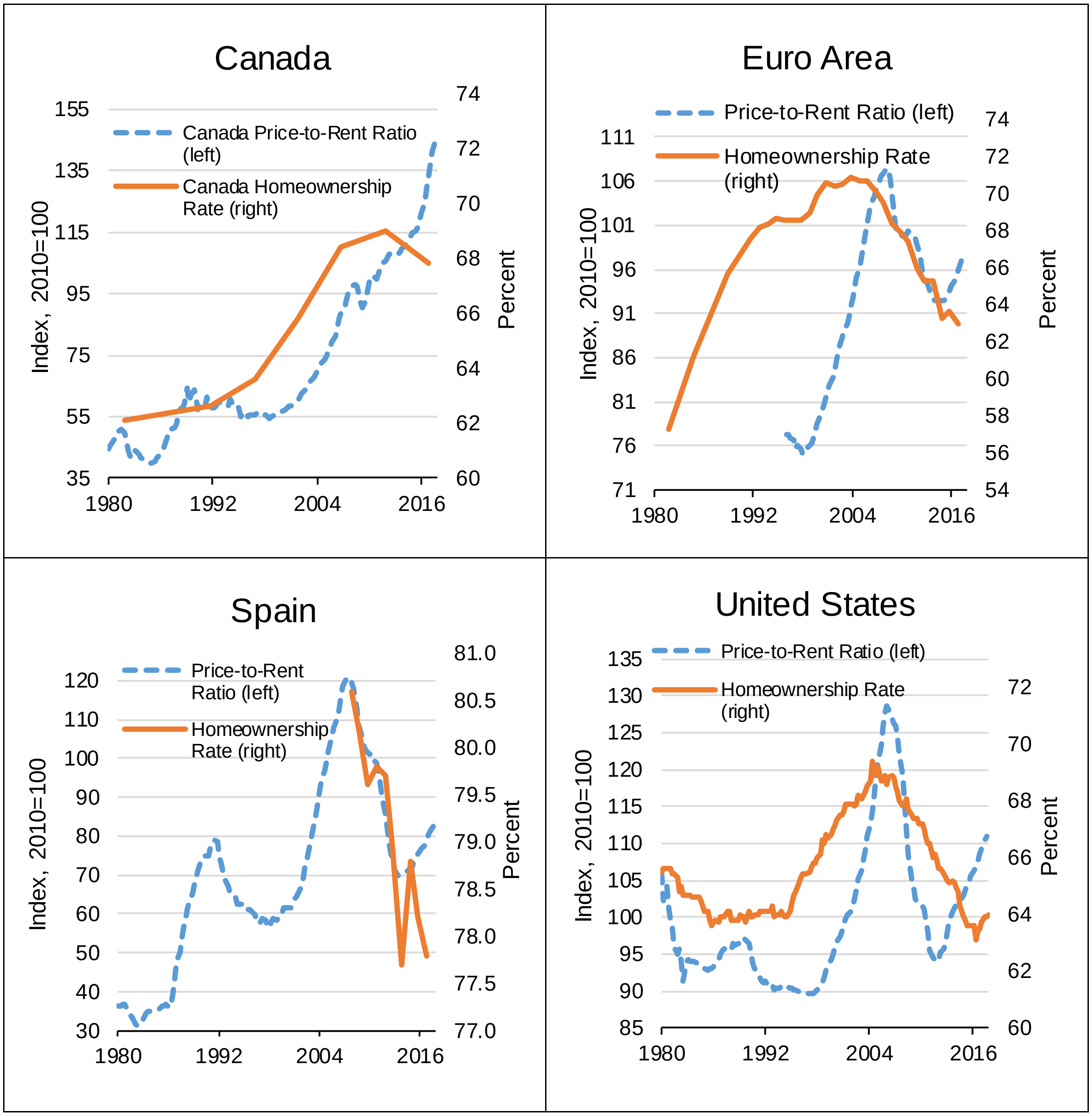
Hites Ahir: Is this also happening in countries with different circumstances (e.g., diverging monetary policy rates)?

Carlos Garriga and Pedro Gete: The fact is very robust across countries, and in the United States it is very evident across most MSAs. We need more work to understand the exact drivers, but it does not seem to be that monetary policy alone can explain the fact.

Hites Ahir: So, we are transitioning from a nation of homeowners to a nation of renters. Has this type of development happened before?

Carlos Garriga and Pedro Gete: In the United States and United Kingdom, homeownership rates were low until post WWII. It seems this was the case in other countries as well. Going back even earlier, the homeownership rate was even lower, as the absence of credit markets makes it very difficult to undertake such a large investment as a house.

Figure 1: Homeownership and Price-to-Rent Ratio



Source: Eurostat, the U.S. Census Bureau, Statistics Canada, the Ministry of Housing, communities, and local governments.

Hites Ahir: What explains the decoupling of house prices and homeownership?

Carlos Garriga and Pedro Gete: Several factors could be driving the decoupling of the price-to-rent ratio and the homeownership rate. From the housing supply side, there is a trend toward decreased construction of starter and midsized housing units. Developers have increased the construction of large single-family homes at the expense of the other segments in the market. Recent increases in regulatory costs could have encouraged builders to focus on larger homes with higher margins. Supply may be just reacting to developments in demand (discussed next).

From the demand side, there are three leading explanations, which are likely to be complementary and self-reinforcing. The first focuses on changes in individual preferences or attitudes toward homeownership. The second builds on changes in the access to mortgage credit. The third tentative explanation relates to changes in the investment nature of real estate.

Hites Ahir: In your note, you say that the "price of houses is again increasing more quickly than the price of rentals." But, as you know, in some countries, rents are controlled. So how do you reconcile this fact with your findings?

Carlos Garriga and Pedro Gete: It is true that in some countries and cities rent controls might limit the growth of one factor. There are also areas, however, with units not subject to controls that cause prices to rise faster than rents, for example, San Francisco and New York City.

Hites Ahir: In your blog, you also talk about "changes in the investment nature of real estate." Could you elaborate on this?

Carlos Garriga and Pedro Gete: There are several types of real estate investors with different goals and targets in terms of the type of investment (i.e., single family vs. multi-family homes): First, there are sole proprietorship investors (i.e., "mom & pop") looking for investment income. Second, there are foreign investors. Third, there are new institutional property owners, such Invitation Homes and American Homes 4 Rent, among others. In fact, since 2016, the real estate industry group has been elevated to the sector level in the S&P Dow Jones Indices.

Technology and globalization have made it easier for the second and third types to increase. For example, technology now makes it profitable to rent single-family houses. In addition, the widespread use of Internet rental portals such as Airbnb and VRBO has increased the opportunity to offer short-term leases, increasing the revenue stream from rental housing.

Hites Ahir: What is next for your research?

Carlos Garriga and Pedro Gete: A closely related issue is to what extent current homeownership rates are artificially high because of an aging population—a global phenomenon. The decline in the number of homeowners is observed across most age groups, but it is also true that the fraction of households over age 45 that are homeowners is substantially larger than for younger households. For this reason, population aging mechanically increases the homeownership rate. For example, in the United States, eliminating the aging effect would generate a homeownership rate of 60.9 percent instead of the observed 63.9 percent—suggesting the impact of aging is quite large. We have a lot of work to do, but we are enthusiastic the topic is worthy!

3. Summer Reading: Recommendations by Experts on Housing Markets

Looking for something to read over the summer? We asked experts for suggestions on books and papers to read on housing markets. Below are their picks:

Modeling Spatial Housing Markets: Theory, Analysis and Policy **by Geoffrey Meen**
Nominated by: John V. Duca (Federal Reserve Bank of Dallas)
Why? "The book provides a well-organized, systematic treatment of what drives house prices at national, regional, and metro levels. It describes and illustrates the importance of having reasonably complete data sets and well-specified models for estimating robust and useful housing relationships."

Color of Law: A Forgotten History of How Our Government Segregated America **by Richard Rothstein**
Nominated by: Svenja Gudell (Zillow Group Chief Economist)
Why? "Rothstein outlines a history of housing discrimination that many people had forgotten – from government redlining to racial covenants – and shows how they have shaped our cities and neighborhoods. He makes the case that residential integration progressed from 1880 into the mid-twentieth century, then stalled. As we mark the 50th anniversary of the Fair Housing Act, this history offers important context for researching and trying to address our current housing issues. It's a book everyone should read, not just economists and housing experts."

The effect of housing supply regulation on housing affordability: A review **by Raven Molloy**
Nominated by: Christian Hilber (London School of Economics)
Why? "I recommend this short review article to scholars interested in understanding why the cost of housing has posed a growing weight on household budgets in recent decades and why genuine housing affordability crises have emerged in many desirable (superstar) cities such as London, San Francisco, or Shanghai. While many commentators recently pointed to lax credit conditions, low interest rates, or foreign investors—all affecting demand for housing—as 'culprits', this article focuses on the important role of housing supply regulation. It succinctly reviews the theoretical and empirical literature, identifies gaps in the literature, and provides some directions for further research."

Evicted: Poverty and Profit in the American City **by Matthew Desmond**
Nominated by: Steve Malpezzi (University of Wisconsin-Madison)
Why? "Based on Desmond's months of field research, Evicted recounts the stories of low-income tenants and their landlords in Milwaukee during nine months of 2008-9. From the book:

"If incarceration had come to define the lives of men from impoverished black neighborhoods, eviction was shaping the lives of women. Poor black men were locked up. Poor black women were locked out." Compelling stuff, but the book is even more powerful for the fact that Desmond spends half of his research time in a poor white trailer park, drawing many important parallels between the lives of poor whites and poor blacks, men and women; without neglecting the differences. Desmond goes beyond the simple stereotypical portraiture of rapacious landlords and benighted tenants, to paint complex and realistic portraits of both."

No Price Like Home: Global House Prices 1870-2012 by Katharina Knoll, Moritz Schularick, and Thomas Steger
Nominated by: David Miles (Imperial College London)
Why? "This paper presents very carefully constructed estimates of house prices across 14 advanced economies since 1870. It uncovers a wealth of new facts about how housing markets have developed over the past 150 years. It presents a challenge to economists to explain some different patterns in prices at different times, in particular why it was that real house prices showed no consistent upwards trend in the period from 1870 to around the middle of the twentieth century but then tripled in the next 60 years."

Supply restrictions, subprime lending and regional US house prices by André Kallåk Anundsen and Christian Heebøll
Nominated by: John Muellbauer (Nuffield College, Oxford)
Why? "This article analyses metropolitan house prices in the US providing micro-evidence of one aspect of the financial accelerator. They estimate a 3-equation model for the 2000-2006 boom period, including equations for the housing stock and cumulative sub-prime lending volumes, to capture shifting credit conditions, controlling for heterogeneity in supply elasticities. Lagged house price appreciation, a proxy for extrapolative expectations, has consequences for the credit equation, evidence for a financial accelerator, as well as the house price equation. Thus, house prices and credit are mutually reinforcing; tighter supply restrictions lead to a stronger financial accelerator."

Days of Slaughter by Susan Wharton Gates
Nominated by: Frank E. Nothaft (CoreLogic)
Why? "September 2018 marks the 10th anniversary of the federal government's placement of Fannie Mae and Freddie Mac into conservatorship. Yet not that long before that, the U.S. secondary mortgage market was the envy of many countries, an example of how other nations should set up their own mortgage markets. For a generation prior to the federal takeover, Fannie Mae and Freddie Mac provided an inexpensive and stable flow of funds to America's homeowners. Days of Slaughter provides an insider's view as to what were some economic, political, and management issues that led to the collapse of Freddie Mac."

Metropolitan land Values by David Albouy, Gabriel Ehrlich and Minchul Shin
Nominated by: Albert Saiz (Massachusetts Institute of Technology)
Why? "This is a really interesting paper for everyone who wants to understand housing affordability in the United States. The authors use a new database of market transactions to study the importance of land costs on the overall price of housing. The authors do not use residual estimates, but actual land transactions, which makes their estimates more reliable."

The New Urban Crisis: How Our Cities Are Increasing Inequality, Deepening Segregation, and Failing the Middle Class and What We Can Do About It by Richard Florida
Nominated by: Robert J. Shiller (Yale University)
Why? "I would recommend Richard Florida's 2017 book: *The New Urban Crisis*, which tells us about a relation between rising inequality and urban dynamics. Rising inequality may be the most important economic issue facing the world today. His detailing the urban dimension of this is striking. His "winner-take-all urbanism" is connected to the geographical polarization of America today, and no doubt applies to other countries as well. Florida lives in Canada, where there is a similar real estate boom in superstar cities going on today."

Milestones in European Housing Finance by Jens Lunde and Christine Whitehead
Nominated by: Susan Wachter (University of Pennsylvania)
Why? "In their edited volume, Milestones in European Housing Finance, Jens Lunde and Christine Whitehead offer a perspective of the past 25 years in European housing finance – a period including the transition from socialism, moves towards development of a common economic framework across the continent and of course, the Global Financial Crisis (GFC). By including treatises – provided by the most prominent country experts – on the development of individual nations' housing finance systems as well as thematically-focused chapters, Lunde and Whitehead develop a view of not only the past quarter century, but also of keys for envisioning the future. This volume underlines the significance of cross-country comparisons in developing a path forward for housing finance systems across the globe."

ABOUT GLOBAL HOUSING WATCH NEWSLETTER

The Global Housing Watch Newsletter aims to present a snapshot of the month's news and research on global housing markets. If you have suggestions on new material that could be included or ideas to improve this newsletter, you can send it to Hites Ahir (hahir@imf.org).

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