



1. IMF'S LATEST HOUSING MARKET ASSESSMENTS

- **Assessing the Risk of the Next Housing Bust ([Global Financial Stability Report](#)):** This [report](#) “studies and quantifies house prices at risk, a measure of downside risks to future house price growth—using theory, insights from past analyses, and new statistical techniques applied to 32 advanced and emerging market economies and major cities. The chapter finds that lower house price momentum, overvaluation, excessive credit growth, and tighter financial conditions predict heightened downside risks to house prices up to three years ahead. The measure of house prices at risk helps forecast downside risks to GDP growth and adds to early-warning models for financial crises. Policymakers can use estimates of house prices at risk to complement other surveillance indicators of housing market vulnerabilities and guide macroprudential policy actions aimed at building buffers and reducing vulnerabilities. Downside risks to house prices could also be relevant for monetary policymakers when forming their views on the downside risks to the economic and inflation outlook. Authorities considering measures to manage capital flows might also find such information useful when a surge in capital inflows increases downside risks to house prices and when other policy options are limited.”
- **Fundamental and Speculative Demands for Housing ([IMF Working Paper](#)):** “This paper separates the roles of demand for housing services and belief about future house prices in a house price cycle, by utilizing a feature of user-cost-of-housing that it is sensitive to demand for housing services only. Optimality conditions of producing housing services determine user-cost-of-housing and the elasticity of substitution between land and structures in producing housing services. I find that the impact of demand for housing services on house prices is amplified by a small elasticity of substitution, and demand explained four fifths of the U.S. house price boom in the 2000s.”
- **Bulgaria ([Article IV](#)):** The IMF’s latest [report](#) on Bulgaria says: “Credit growth has picked up. Both consumer and mortgage loan growth has been buoyant, accompanied by strong housing price increases (averaging 7.5 percent y/y since 2016). Credit to corporates has also

been recovering and reached 5.4 percent y/y in 2018, the highest level since 2013, while credit standards have slightly tightened or remained unchanged recently. But non-financial corporate debt remains high among the new member states (NMS)—notwithstanding a marked decline from 106 percent of GDP in 2008 to 80 percent of GDP in 2017. Overall credit-to-GDP ratio remains below the historical trend, with the ratio substantially below the peak reached in 2010.”

- **Kuwait ([Article IV](#)):** The IMF’s latest [report](#) on Kuwait says: ““Real estate is recovering, and equity markets have outperformed regional peers. The sales of investment and residential properties rebounded since mid-2018. Kuwaiti stocks outperformed other Gulf Cooperation Council (GCC) markets, and market capitalization rose, especially following the March 2018 announcement of Kuwait’s inclusion in the FTSE Russell Emerging Market Index.”
- **Sweden ([Article IV](#)):** The IMF’s latest [report](#) on Sweden says: “High housing prices and high market rents increase vulnerabilities and inequality. Despite their recent moderation, house prices have tripled in real terms since the mid-1990s, lifting the price-to-income (PTI) ratio to almost 30 percent above its 20-year average, with Stockholm’s PTI nearly twice the national average and among the highest worldwide. New purchasers must take on high debts relative to income (DTI), typically at floating rates, a macrofinancial vulnerability (...). Moreover, long queues for rent-controlled apartments meant that those unable to purchase housing had to pay much higher rents on subletted or newly constructed apartments, that are estimated to be 65 percent higher on average. An “insider-outsider” problem arises as labor mobility to the main centers is most impaired for those without parents able to assist with large down payments, impeding growth and exacerbating intergenerational and regional inequality.”

2. UNDERSTANDING HOUSING SUPPLY: VIEWS FROM JENNY SCHUETZ

In this interview, [Jenny Schuetz](#) talks about her research on housing supply. Specifically, she talks about the current state of housing supply in the U.S., how mechanisms of housing gains and losses vary across the country and how have they changed over time, explain why housing markets are prone to supply-demand imbalances, and more. Schuetz is a David M. Rubenstein Fellow in the Metropolitan Policy Program at the Brookings Institution.

On housing supply

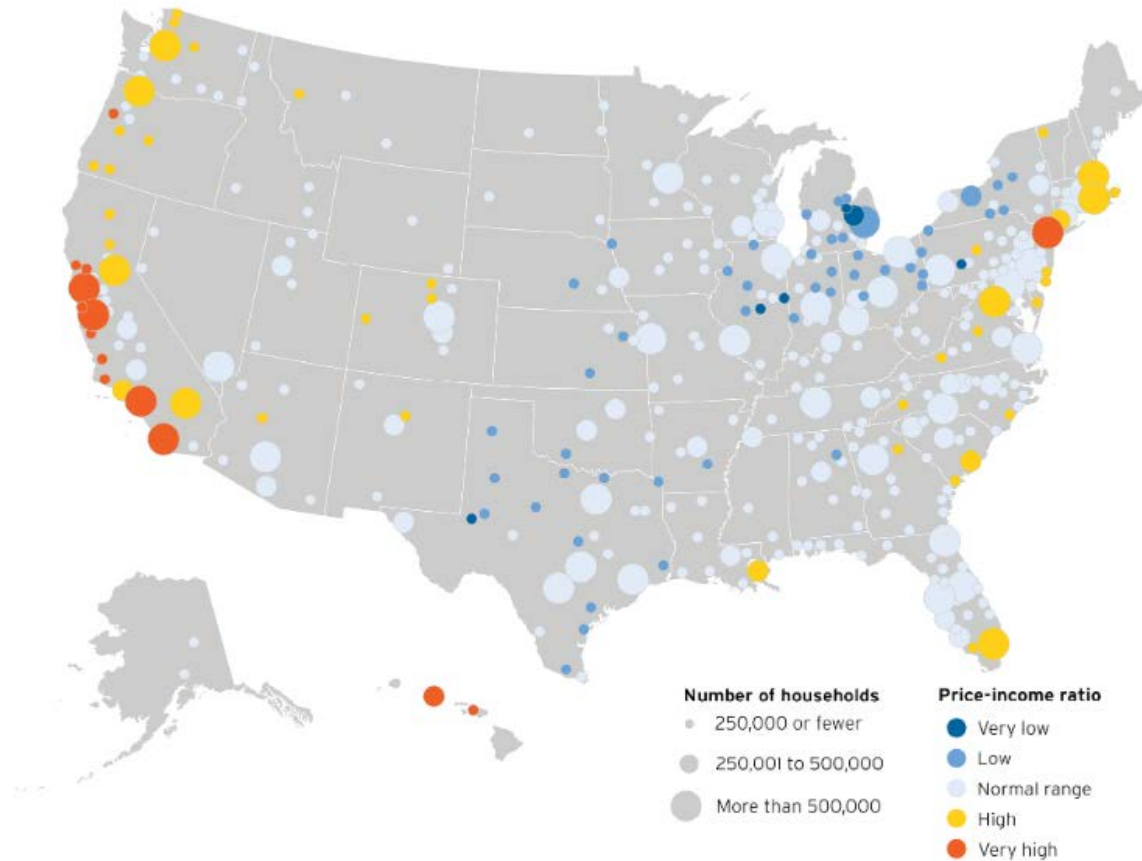
Hites Ahir: You have written a report on: [The Goldilocks problem of housing supply: Too little, too much, or just right?](#) What is the current state of housing supply in the U.S.?

Jenny Schuetz: It's important to recognize that the U.S. isn't one integrated housing market – there are hundreds of metropolitan areas, each with different housing market dynamics. For policy purposes, it is helpful to identify which markets are balanced and which ones are unbalanced. One way to identify where housing markets are unbalanced is to look at the ratio between housing prices and incomes. In most of the U.S., median prices are between three- and four-times median household income, which is considered a healthy range. Metros with very high price-income ratios haven't built enough housing to accommodate demand. Most West Coast metros fall into this category, plus East Coast metros like New York, Boston, and Washington DC. Metros with very low price-income ratios are mostly places that have experienced large population declines – older industrial cities around the Great Lakes, plus lots of smaller towns in the Heartland. The good news is that most metro areas have reasonably well-balanced housing markets. The bad news is that some of the largest, most productive metros – where lots of people want to live – haven't built nearly enough, and so their housing costs are out of reach for middle-income workers.

Figure 1.

Hard to become a homeowner vs. hard to build housing wealth

Average price-income ratio by metro area, 2012-16



Note: Metro-level price-income ratios are averages across constituent tracts. Price-income categories are assigned based on the national distribution, as follows: very low (bottom 10%), low (11-25%), normal range (26-75%), high (76-89%), and very high (top 10%).
Source: Brookings analysis of 2012-16 American Community Survey data

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Hites Ahir: You have also looked at [how mechanisms of housing gains and losses vary across the country and how have they changed over time](#). What did you find?

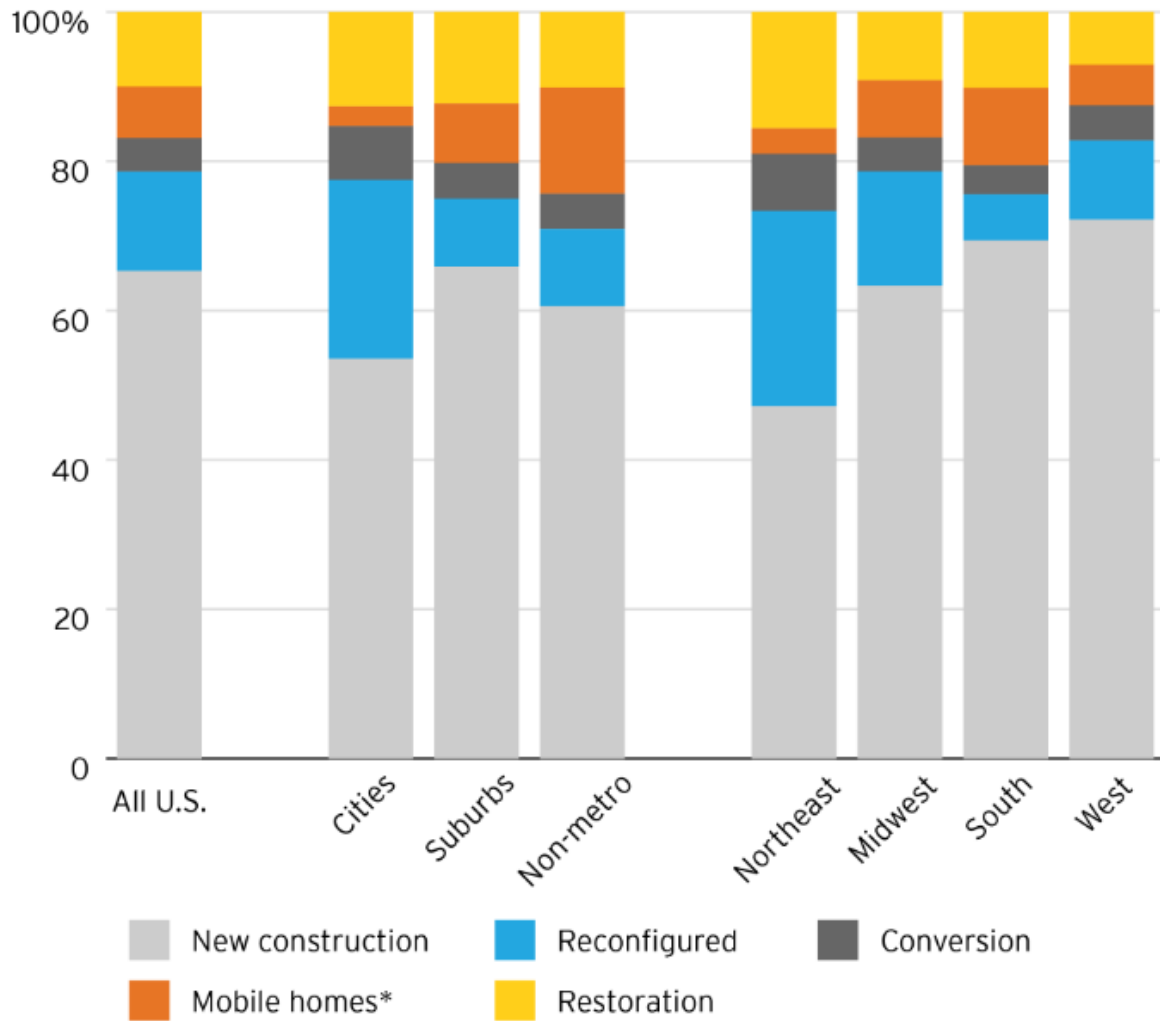
Jenny Schuetz: For most of the 20th century, U.S. metro areas grew by building new single-family homes in suburban and exurban subdivisions. Even metros that lost population in the center city, housing supply expanded by building farther out. But since about the 1990s, the rate of housing growth has slowed – we are still adding housing, but not as much. And a larger share of housing growth comes through channels other than new construction: converting non-residential buildings into homes or reconfiguring existing homes into different types of units.

How much housing growth comes through different channels varies quite a lot by geography, as the figure below shows.

Figure 2.

New construction not the only source of housing growth

Components of housing gain by geography, 1985-2013



Note: Mobile home data missing for central cities for several years. Graph omits additions through "Other" channels.
 Source: HUD CINCH reports, 1985-2013



On understanding the mechanics of housing supply

Hites Ahir: Why housing markets are prone to supply-demand imbalances?

Jenny Schuetz: Housing markets have three unusual features. First, housing supply adjusts slowly over time. When a city loses population, the houses that exist don't just disappear overnight. Building new houses in response to increased demand also takes time – months or even years, depending on the size and complexity of the project. Second, both housing supply and demand are tied to specific places. We can't move empty houses from Detroit to meet demand in San Francisco. People can and do relocate, partly in response to housing affordability. But leaving jobs and social networks to move across the country is costly and disruptive. Third, unlike most other goods and services, all changes to housing supply must be approved by local governments. Building new houses, renovating or demolishing existing ones, requires explicit permission from local governments. If existing homeowners don't want new homes built in their neighborhood, they will elect mayors and city councilors who enact policies that limit development.

Hites Ahir: You have called for the [need for better measures of housing supply](#). Can you tell us a bit about this?

Jenny Schuetz: Understanding that housing doesn't just grow via new construction, as the graph above shows, implies that we should be monitoring changes in housing supply through several different channels. But our best funded and most frequently used public data sources on housing aren't well set up to do that. The decennial census and American Community Survey count housing units at a single point in time. The Census Bureau's New Residential Construction Series monitors building permits, starts, and completions for new construction. It's possible to use the American Housing Survey to break down housing supply changes into various components, but that's technically quite complicated. Housing researchers and policymakers would benefit from having more timely, geographically disaggregated data on the complex ways in which housing supply changes.

On housing supply and neighborhood change

Hites Ahir: You have also done interesting research related to neighborhood change. For example: [*Do art galleries stimulate redevelopment?*](#), [*Bodegas or Bagel Shops? Neighborhood Differences in Retail and Household Services*](#), [*Why are Walmart and Target Next-Door neighbors?*](#) How does this set of research ties with your work on housing supply?

Jenny Schuetz: Within urban areas, most neighborhoods include both residential and commercial buildings, so it is helpful to think about the relationship between these real estate sectors. Better retail quality can boost neighborhood housing prices; and increased residential population or increased income of residents translates into more demand for neighborhood-serving stores and restaurants. Too often research focuses only on one side, but the interactions are fascinating. My art gallery paper was my first foray into the kinds of physical changes that buildings undergo, just looking at a very small scale like city blocks in Manhattan. It is conceptually quite similar to my current research on redevelopment.

On working at the Brookings Institution

Hites Ahir: What got you interested in housing markets?

Jenny Schuetz: My first job after college was at Abt Associates, consulting with local housing authorities about how to better manage their inventories of public housing. It was a great introduction to how different housing market conditions were in cities across the U.S. For instance, Boston's housing authority had a three-year wait list for public housing – the private rental market was so expensive and so tight that people were willing to wait years for subsidized apartments. In contrast, St. Louis had 20 percent vacancy rates in public housing, because private apartments were fairly cheap and had better quality. In every city across the U.S., there are poor families who can't afford housing. But it's quite tricky to design policies, especially at the national level, that address affordability while being flexible to different local conditions.

Hites Ahir: What does your day-to-day work at the *Brookings Institution* look like?

Jenny Schuetz: I try to balance long-term research projects with shorter, topical pieces on current issues in housing/urban policy. This spring I have been analyzing new data on apartment zoning in California, while also keeping an eye on Oregon's new rent control law and what the 2020 presidential candidates are – or aren't – saying about housing.

Hites Ahir: What is the most rewarding aspect of your job?

Jenny Schuetz: My mission at Brookings is to explain to a broad public audience why housing and land use issues are important to people's everyday lives. Academic papers are stylistically quite dry and technical, and mostly targeted towards other academics. At Brookings, I get to write about my favorite topics in plain English for a general audience, in the hopes of persuading voters to adopt better policies. It feels like a victory any time someone who isn't a housing expert tells me that she's learned something from my blogpost.

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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