
## 1. IMF'S LATEST HOUSING MARKET ASSESSMENTS

**Cyprus (Article IV):** "Property prices are rising gradually but unevenly across markets (…). Rising demand for housing and business offices is being met with increasing supply from new construction, as evidenced by the rising issuance of building permits, and release of repossessed collateral properties by banks. Real estate holdings by banks, CACs and investment funds have also increased. Overall residential prices grew by 2.7 percent (yoy) in 2019:Q1 while sales transactions rose by nearly 6 percent during 2018.14 The property market remains highly segmented, however, with higher price increases observed primarily in a growing luxury segment in some coastal areas (e.g., Limassol), fueled by the CIP-linked demand from non-residents, with limited spillovers to other segments so far. Rents have been rising rapidly—17 percent in 2018— mainly driven by the growing demand from foreign students and lagging supply of rental property investments, prompting the authorities to increase rental and housing subsidies and a range of incentives for developers to increase supplies of affordable housing and rental properties", says IMF's report.

## 2. EXPERTS CONFER ON THE STATE OF THE U.S. RENTAL HOUSING MARKET

**Below is a conference summary prepared by Pedro Gete (IE Business School).*

- The real estate market is poised for a favorable year even with an expected slowdown in the economy in 2020.
- Experts also pointed out the importance of population flows to understand recent housing dynamics, the need to rethink housing policy, and the strong effects that technology—such as Airbnb—is having on housing markets.
- Conference is part of the Federal Reserve Bank of St. Louis' work in tracking developments in the U.S. housing market.

The Federal Reserve Bank of St. Louis hosted its first annual conference on December 5-6, 2019 on the U.S. rental housing markets. The conference was organized by Carlos Garriga and Don Schlagenhauf of the Federal Reserve Bank of St. Louis, and Pedro Gete from IE Business School. This conference brought together top experts to discuss current trends in the rental housing market alongside in-depth research to help understand the dynamics driving these markets and potential implications of policy decisions.

**The view from the private sector and government agencies**

The conference included Paul Liegey from the Bureau of Labor Statistics and participants from the private sector: Jeffrey Adler (Yardi Systems); Cris DeRitis (Moody's); Mike Fratantoni (Mortgage Bankers Association); and Svenja Gudell (Zillow Group); Taylor Marr (Redfin); and Frank Nothaft (CoreLogic). What follows are the key takeaways from these participants:

- The overall outlook for the U.S. economy remains favorable. Most panelists projected slower economic growth in 2020, with real GDP growth between 2 percent and 2.5 percent. Only one forecast had real GDP growth slightly under 1 percent. Comments suggested the recent interest rate cuts by the Fed would cushion a slowdown from turning to a recession.
- Panelists generally agreed that the real estate market was poised for a favorable year even with a slowdown in the economy, as demographics should produce growth in household formation which would generate steady demand for home purchases. Panelists also agreed that the supply of homes to be added in 2020 is unlikely to meet new demand, effectively pushing up prices and reducing affordability for first-time buyers.

- While the demographics are favorable to increasing home sales in 2020, the continued lack of supply and higher prices are likely to keep many potential first-time buyers in the rental market, keeping the demand for rental units stable to increasing. Panelists noted, however, drivers of demand for multifamily units varied across the county: in large (high-cost) coastal cities, demand has been driven by international migration; in mid-size cities in the West, Texas, and South, demand has been driven by domestic migration.
- Panelists offered various hypotheses for the lack of supply for new housing units (both owner-occupied and rental). Panelists noted that anecdotally labor shortages are often cited for containing building. However, economic data suggest the labor reason may be over-emphasized: while total employment growth has been slow, average wage growth for construction workers has slowed, which suggests lower demand for these positions. Among others, alternative hypotheses offered by panelists included: longer time to completion on new construction; a lack of available lots; desire to age in place by older generations; and a large future supply of homes over next 20 years due to the passing of baby boomers.

### The view from policymakers and academics

The conference also included participants from the central banks and academia. What follows are the key takeaways from this group.

- **Housing Supply and Affordability**, *presented by Raven Molloy (Federal Reserve Board). Coauthors: Charles G. Nathanson (Northwestern University) and Andrew Paciorek (Federal Reserve Board).* The authors develop a model to understand how housing supply constraints affect housing affordability. The model predicts that supply constraints will increase the price of housing services (or rents) by only about half as much as the house purchase price. This is because purchase prices reflect current rents as well as future increases in rents. Using metro-area data, the authors find sizeable effects of supply constraints on house prices, but little effect on rent, house/lot size, location, or housing expenditures. The authors conclude that housing supply constraints distort housing consumption and affordability much less than their estimated effects on house prices would suggest.

- **Landlord rights, Evictions, and Rent Affordability**, *presented by Thao Le (Georgia State University). Coauthors: N. Edward Coulson (University of California) Irvine and Lily Shen (Clemson University).* The authors develop a search model to understand the effect of eviction cost on rent affordability. The model predicts that a lower eviction cost will lead to lower rent, higher supply, a higher vacancy rate, a lower homeless rate, and a potentially higher eviction rate. Using data, the authors confirm the model predictions. In areas where landlords have stronger rights, rental houses are more affordable, and the vacancy rate is higher. The results highlight a delicate balance between strict regulations, eviction and rent affordability.

- **Affordable Housings and City Welfare**, *presented by Pierre Mabille (New York University). Coauthors: Jack Favilukis (University of British Columbia) and Stijn Van Nieuwerburgh (Columbia University).* The authors evaluate the effect of affordable housing policies (zoning changes, rent control, housing vouchers, and tax credits) on the well-being of citizens. Using a model calibrated to the New York, MSA, they find that housing affordability policies carry substantial insurance value but cause misallocation in labor and housing markets. For example, increasing the housing stock in the urban core by relaxing zoning regulations is welfare improving. Contrary to conventional wisdom, increasing the generosity of the affordable housing or housing voucher systems is also welfare improving. Increasing the housing safety net for the poorest households creates welfare gains for society. How the affordability policies are financed has first-order effects on welfare gains.

- **The Price-Rent Ratio during the Boom and Bust**, *presented by Paul Willen (Federal Reserve Bank of Boston). Coauthors: Jaclene Begley (Fannie Mae) and Lara Loewenstein (Federal Reserve Bank of Cleveland).* They decompose the change in the price of occupant-owned property into three components: (1) changes in rent; (2) changes in the relative price of investor-and occupant-owned property; and (3) changes in the price-rent ratio. They show that changes in the price-rent ratio accounts for most of the variation and argue that this has significant implications for theories of the 2000s housing boom and bust.

- **The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb,** *presented by Davide Proserpio (University of Southern California). Coauthors: Kyle Barron (NBER) and Edward Kung (UCLA).* The authors find that 1 percent increase in Airbnb listings is causally associated with a 0.018 percent increase in rental rates and 0.026 percent increase in house prices. Considering the rapid growth in Airbnb, this accounts for about one-fifth of the average annual increase in national rents, and one-seventh of the average annual increase in housing prices. While this is an important factor, demographic changes across cities zip codes can explain three-fourths of the differences in rent and housing price growth.

- **Why is the rent so darn high?** *Presented by Greg Howard (University of Illinois). Coauthor: Jack Liebersohn (Ohio State University).* Rents are high because of migration. The authors show that three-quarters of the CPI-rent increase in the United States from 2000 to 2018 is due to increased demand to live in ex-ante housing-supply-inelastic cities (that is, cities where is it difficult to build new housing). The authors also show that despite low short-run migration rates, people have high long-run mobility. Moreover, the pattern of migration across cities matches the patterns in labor-market and amenity changes.


From left to right: Carlos Garriga (Federal Reserve Bank of St. Louis), Frank Nothaft (CoreLogic), Taylor Marr (Redfin), Svenja Gudell (Zillow Group), and Mike Fratantoni (Mortgage Bankers Association).


From left to right: Randal Verbrugge (Federal Reserve Bank of Cleveland), Paul Liegey (Bureau of Labor Statistics), Jeffrey Adler (Yardi Systems) and Cris DeRitis (Moody's).

# 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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