

# Some Thoughts on Housing Affordability

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Workshop on the Appropriate Government Role in U.S. Mortgage Markets  
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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.

# Disclaimer

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- When I say “we”, I don’t mean Janet and me.

# Recent Trends in House Prices

THE WALL STREET JOURNAL.  
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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

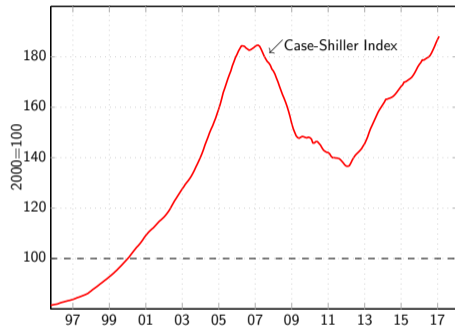
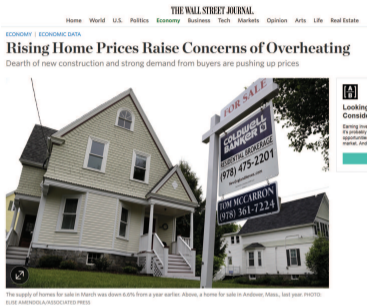


**Looking  
Aside**  
Earning more  
is probably an  
opportunity  
market. And it

The supply of homes for sale in March was down 6.0% from a year earlier. Above, a home for sale in Andover, Mass., last year. PHOTO: ELISE AMENDOLA/ASSOCIATED PRESS

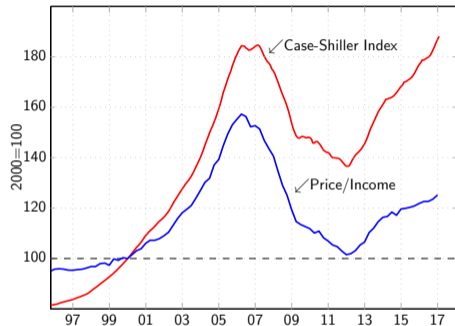
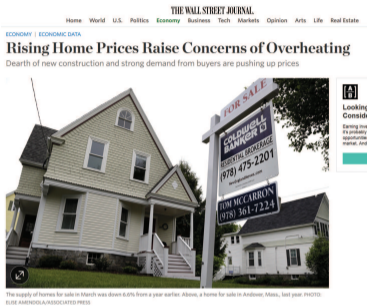


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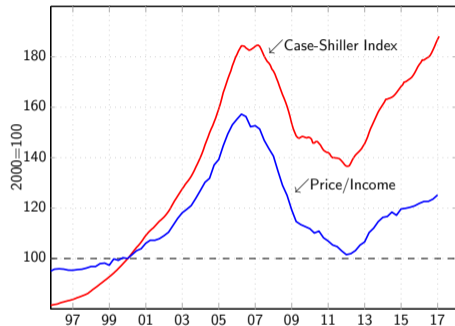
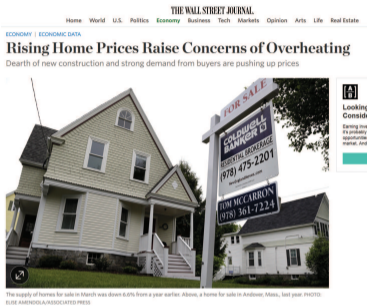
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# Recent Trends in House Prices



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  - Well below peak
  - High compared to 2000.

# Recent Trends in House Prices



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

# Price to rent ratio

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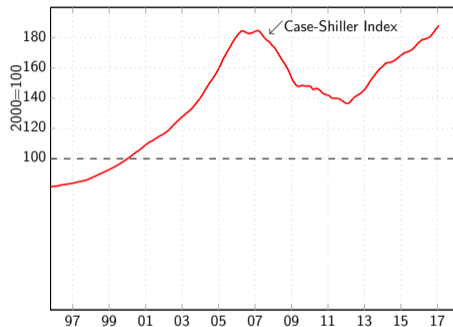
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- Unlike  $P$  or  $P/Y$ ,  $P/R$  returned to pre-crisis level



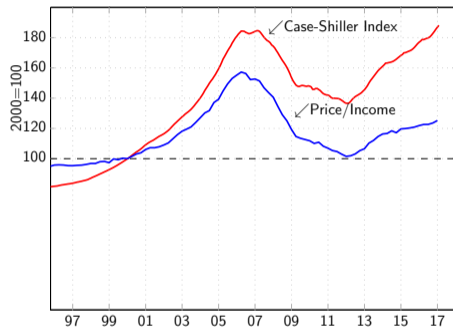


# Affordability



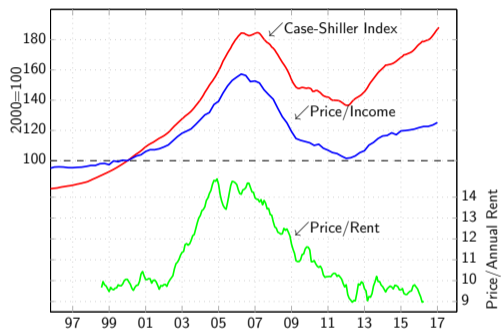
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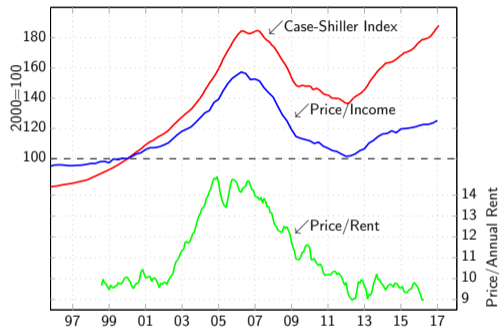
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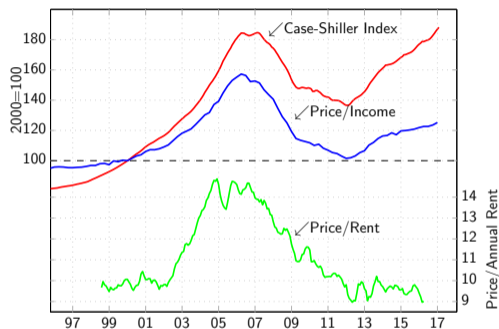
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# Affordability



- 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.

## Policy

### Rent

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

## Policy

**Rent**

**Own**

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## Policy

Rent

Own



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

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

# Policy

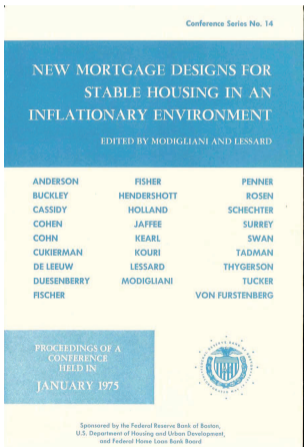
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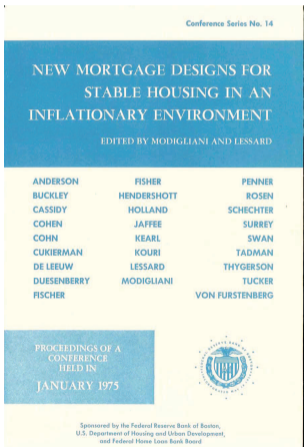
## Policy

- Housing finance can help here
- If high rents are the problem
- Housing finance cannot help much



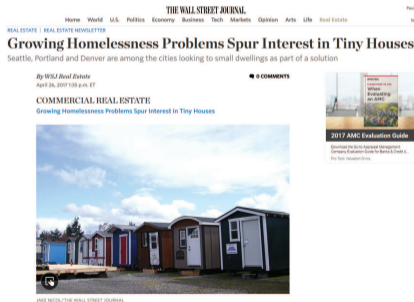
## Policy

- Housing finance can help here



Paul Willen (Boston Fed)

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



Affordability



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

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- The end.