

The Housing Wealth Effect: Quasi-Experimental Evidence

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- The interaction between housing and consumption is crucial for the economy
 1. Wealth effect: Wealthier households spend more
 2. Collateral channel: An increase in house prices loosen credit constraints
 - The feedback loop between housing and consumption amplifies the fluctuations
 - Hence, this relationship is crucial for monetary and macroprudential policy design

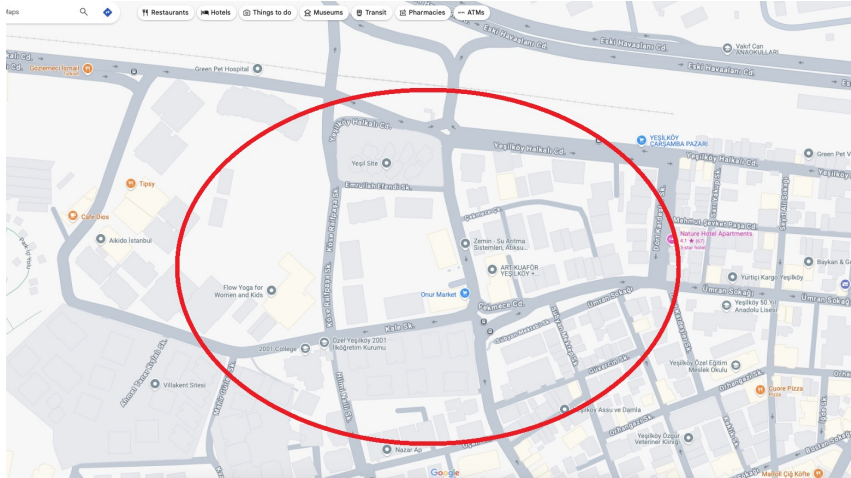
This paper

- Uses a novel shock: Decision about airport closure
 - Idea: Closing the airport eliminates negative externalities (noise), increasing the prices
- Combines this shock with detailed household-level data
- Finds that **NOT closing** the airport decreases house prices by **20%**
 - To which, households react by buying cars cheaper in value by **8%**

- The Bromma Airport was opened in 1936 and main airport of Stockholm until Arlanda Airport was opened in 1962
- The public perception was that the airport is to be closed when its contract expires in 2011
- Yet, a political party who is in favor of keeping the airport open won the local elections in 2006
- This party initiates negotiations about the airport, which eventually leads to a new contract in September 2007, expiring in 2038
- **Shock:** This decision means that negative externalities, mainly noise pollution, will continue
 - This should lower house prices

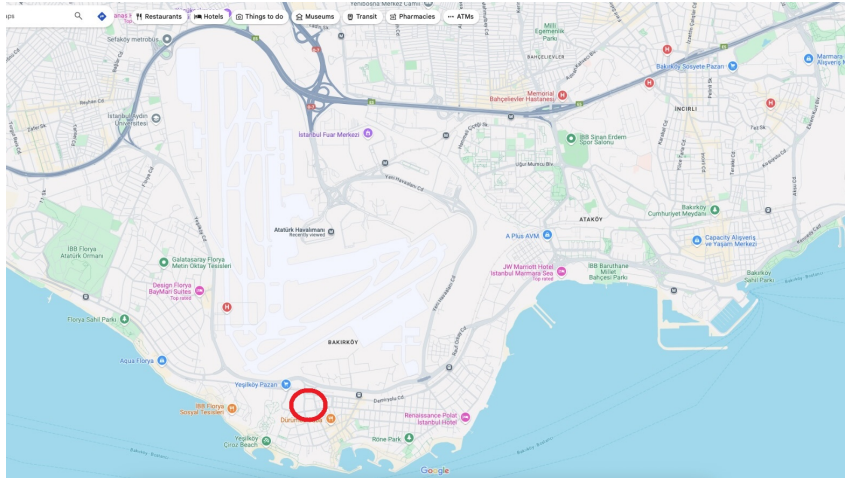
Personal connection

This is where I spent my childhood...



Personal connection

... very close to the Ataturk Airport



Airport as a workplace

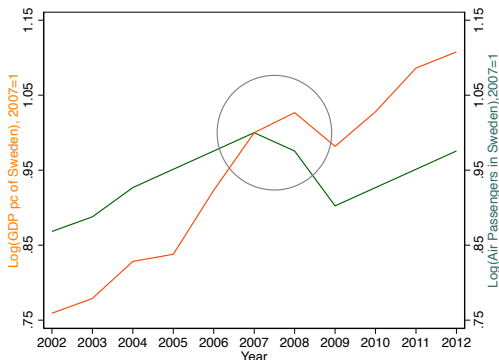
- Bromma Airport is the third largest airport in Sweden
 - I wouldn't be surprised if workers of this airport live close by
- Then, there could be a difference between the treatment and control group with respect to employer/sector
- This shock is more than a house price shock to them!
 1. Labor supply
 2. Cyclicalities

Labor supply

- This shock means that they don't need to look for a new job or commute to Arlanda Airport
 - Arlanda is 1 hour from Bromma by public transport and 30 mins by car
- As these workers don't need to commute, they don't need to buy expensive cars
 - Doesn't explain lack of extensive margin effects and the decline in house prices

Cyclicality: The aviation industry is notoriously cyclical

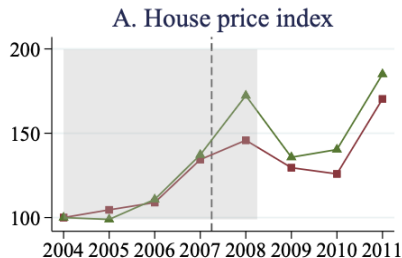
- # of air passengers was already declining in 2007 in Sweden, while GDP pc was increasing
- If treated HHs are in the aviation industry, their expected outlook is worse than the others
 - I don't expect lower wages as the aviation is highly unionized
 - Yet, worse economic outlook can explain lower house prices, smaller cars...



- The magnitude of the shock (20% decline in house prices) is worth discussing
- Reasons to expect a smaller magnitude
 1. Economic activity will not decline. People keep working at the airport and don't have to move somewhere else.
 2. The shock didn't change the status quo. The airport is old enough to make sure that all residents can anticipate noise pollution before moving to this area.
 - The first time that this expectation is formed is crucial. Only the residents who move after this expectation should value noise pollution highly.
 - To have large impact on prices, this expectation has to be formed many years before the shock. However, if it is too far away in history, recent homebuyers may not believe in this expectation.

How can we explain this magnitude?

- A fraction of the households may be highly sensitive to noise pollution and they may be willing to sell their houses with a big discount (noise fire sell)
- Then, the price effect should be temporary as prices will recover once such sales are over. Indeed, the graph that show the subsequent periods confirms this.
- Do banks immediately update their house valuation even though the shock may be temporary? Discussing how banks approach this shock is crucial.



Minor comments

- Is there a way to document that the public was expecting the Bromma Airport to close? During the formation of their expectations, house prices should increase
- This shock also resolves an uncertainty. How should we incorporate this channel?
- Do you look at first-time car owners? I would differentiate between the first (main) car and the second car of the household.
- What would happen to airport campus if the airport were to be closed? Another business area? If the new plan offers a better economic outlook, this may change the interpretation of the results.
- I understand that apartments may react less than houses. However, I'm not sure whether the reasons mentioned are strong enough to justify the 20% price difference.
- Why didn't you include a fixed effect that absorbs the location effect?
- According to table 4, 50 percent LTV is not that important. It is negative home equity that creates a large heterogeneity. Therefore, I'd try to find the households who have negative home equity due to this price shock and assess their reaction.
- Even though the extensive margin estimates are insignificant, I'd still include them in MPX calculation. It should increase the magnitude slightly.