

House Prices, Investors, and Credit in the Great Housing Bust

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Abstract

What role did investors play in stabilizing housing markets during the Great Housing Bust? Using transaction-level data, I distinguish between two distinct classes of housing investors: large, deep-pocketed corporate investors, and small household investors that rely on mortgage credit. I estimate that in response to a negative mortgage credit supply shock, house prices fell by 30 percent more in markets where household investors absorbed a larger share of house purchases than did corporate investors. To rationalize this result, I build a heterogeneous agent model of the housing market featuring both types of investors. The model maps the estimated relative decline in house prices to the relative housing demand elasticities of corporate and household investors. Because household investment is relatively inelastic, the model produces a much larger equilibrium decline in house prices in response to a negative mortgage credit supply shock when household investors are the marginal house buyers. I show that the lower household investment demand elasticity is due to household exposure to the mortgage shock, the illiquidity of housing assets, and losses on primary property wealth. When corporate investors are the marginal house buyers during the shock, house prices are more stable and household welfare improves. This is the case even though homeownership rates fall by more and capital gains on housing during the recovery accrue to firms rather than households.

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