

Aiello, Kotter and Schubert (2023):
The Real Effects of Household Financial Constraints:
When Money Moves In

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HOUSING > HOUSING MARKET

Rich Out-of-Town Buyers Are Making It Hard for Locals to Afford Homes in Their Own Cities

REDFIN | News

Out-of-Towners Moving to Austin Spend \$22,500 More on Homes Than Locals

In Hot Cities, Out-of-Town Buyers Are Pushing Home Prices up for Everyone

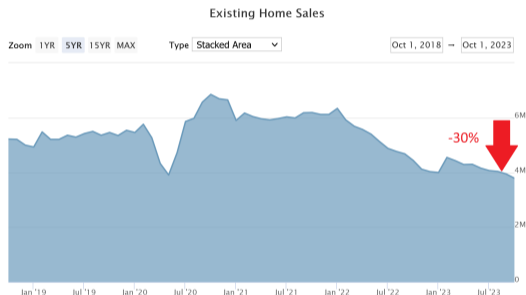
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 - First-time buyers about 1/3, existing homebuyers 2/3 (!)

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- 2 Understanding the process of **gentrification** & distributional consequences
(e.g. LaPoint 2022, Austin 2023)
 - Spillovers from equity gains? ↑ housing wealth vs. affordability, rents?

This Paper

- Exogenous increases in housing wealth in **seller housing market** raise house prices **in subsequent market** where the seller buys a new home
 - Linking homeowner to homeowner moves using Zillow ZTRAX data
- **Key findings:**
 - \$1 ↑ in home equity leads to **\$0.06 premium** paid on next house
 - \$10% ↑ in home equity amongst out-of-town buyers **raises local house prices by 0.4pp**
 - Proposed mechanism: pay more money instead of costly search / info acquisition

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- **Discussion points:**
 - ① Economic framework / mechanisms
 - ② Financial constraints
 - ③ Endogenous timing of sale

Comment 1: Economic Framework / Mechanisms

Market A



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- Bigger / better house ✓
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- (Negative?) spillovers for existing residents - higher house prices ✓
 - More wealth vs. affordability, rental prices?

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Market B

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- Further away / better labor market ?
- More expensive neighborhood ✓
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→ Could emphasize range of existing results

→ Decompose effects (\$1), compare benefits vs. spillovers? Who is better/worse off?

Comment 2: More Formal Treatment of Financial Constraints?

- Down-payment constraint for repeat buyers (Stein 1995, Andersen et al. 2022):

$$\textit{HomeEquity} \geq \gamma \textit{NewHousePrice},$$

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- Predicts bunching / nonlinear effects!
 - Andersen et al. 2022: inconsistent with data, introduce quadratic penalty function in $\gamma NewHousePrice - HomeEquity$
- Are the effects weaker for households who are close to the down-payment constraint?
 - If you had more \$ and are constrained, would not overpay but rather help you overcome constraint?
 - Likely requires [information on mortgage balance](#) to determine level of home equity
 - Alternative way to overcome constraint is to down-size → heterogeneity in age, # of children

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- Instrument for equity gain: Δ in median zip code house price (purchase to sale)
- Observe ΔHPI conditional on selling

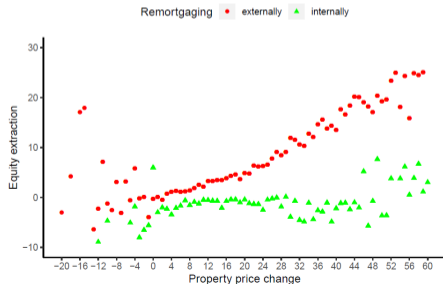
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 - Worth discussing
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Example: Timing of Cash Out Refi



Source: Belgibayeva et al (2022), UK PSD

Other Comments (For Authors)

- Why not show reduced form rather than correlational plot? (and other outcomes graphically) - “non-parametric” advantage: helps detect any nonlinearities (ideally relative to mortgage position) for financial constraints
- How big is the estimated effect (premium paid) relative to the R^2 / fit of the repeat sales model compared to actual realized houses? Could perhaps do simulation?
- Why levels (and not %)? Would check histograms and that results not driven by tails

Conclusion

- Bring new dataset and analysis to important question:
How do housing wealth shocks affect subsequent housing transactions?
 - Affects household behavior and has spillover effects
- Suggestions: wider framing and additional outcomes, shift emphasis away from financial constraints (or narrow in on mechanism)
 - Moving through the housing ladder, important linkages for housing dynamics
 - Understanding (distributional) effects of gentrification (“when money moves in”)
- Best of luck, looking forward to future iterations!