Should I stay or should I go? The role of housing in understanding limited inter-regional worker mobility

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Overview

Q: Does homeownership deter workers from moving away after a negative shock to regional labor demand?

Empirical strategy

- Exploit exogenous shock to local economic conditions (2014 oil shock) in Stavanger
- Measure effects on out-migration, namely as they relate to housing wealth
  - → Rich population data, allows to explore other dimensions: age; income; wealth

Model

- Life-cycle/spatial model with joint consumption, moving and housing tenure decisions and endogenous house prices
- Qualitatively replicates empirical results

Contribution: propose new "housing wealth channel"

Research question

Q: Does homeownership deter workers from moving away after a negative shock to regional labor demand?

- Very interesting, touches on different literatures: urban; labor; household fin.
- Would benefit from sharper focus + hint at a concrete mechanism from the start
  - → Could refer to a variety of mechanisms: moving, search costs; mortgages; …
  - → Large literature since Ferreira, Gyourko, and Tracy (2010); see Fonseca and Liu (2023)

Comment #1

Clarify proposed mechanism

> [H]omeowners who wished to move would make less from selling their current dwelling, […]being unable to afford housing of the same quality in other locations[…]. This acts as a pull factor on the homeowner to stay

- Relative price/substitution effect also true for renters?
- As for income effect for homeowners, is this a disincentive to move or a result of moving decisions? Depends on source of house price drop

Comment #1

Clarify proposed mechanism

Why do house prices go down in Stavanger?

- No clear hypothesis in the paper, but most obvious candidate:
  - → $\downarrow$ shift in L demand $\Rightarrow \downarrow L$, w in eqbm. $\Rightarrow \downarrow$ shift in housing demand
  - → House prices fall due to lower incentives to live and work in S
- But this applies to homeowner-workers too: "pull factor" = "push factor"?
  - → For house price drop to be observed, there must be actual transactions
  - → If market composed only of homeowner-workers, new price equilibrium only depends on their own preferences ("pull" = "push")
  - → GE: prices will fall *less* to offset some of the change in Δw

Comment #1

Clarify proposed mechanism

- Something missing? Probably, interaction of rental and owner-occupier markets:
  - → If renters leave and “foreign” landlords sell: homeowners face “exogenous” depreciation and can avoid capitalizing losses
  - → Still, not obvious how effect varies with home value
  - → Not clear at the moment, but good news: model looks ready to show this!
- Alternatives would not, per se, generate differences between owners/renters:
  - → Drop in real estate investment from abroad?
  - → Increase in housing supply?

Comment #2

Clarify housing wealth data

What is “housing wealth”?

- Not clearly defined in the paper – especially problematic in this data
  - → Presumably, measured value of primary residence
- What about mortgage debt? Requires *other* data (why not?)
  - → Total debt data problematic (a lot of student loans)
- Measurement: housing undervalued in *this* data (Fagereng, Holm, and Torstensen 2020)
  - → Do you apply the proposed (or other) corrections?
  - → Could it be that any bias increases with **time since last transaction**?
  - → ⇒ Then, housing wealth bins would sort by age of house
  - → Could favor a decrease in propensity to move with “housing wealth”?

Comment #3

Need to consider the role of financial constraints

- Even if housing data were perfect, hard to interpret without mortgage debt data
- Needed to defend story and exclude financial constraints channels e.g.:
  - → Young homeowners have not yet built home equity (housing assets − debt)
  - → After price crash, ↑ debt / assets ⇒ unable to sell and get a new mortgage

    (Stein 1995; Bernstein and Struyven 2022)
  - → Also, given ↓ wages, payment / income constraint may bind
- Such a story would have clear heterogeneous implications that could be checked:
  - → Effect stronger with indebtedness (distance to LtV constraint)

    (Foote 2016; Gopalan et al. 2020)
  - → Stronger for more recent house purchases?
- Could also help to rule out possible role of interest rate decline

Comment #4

Need more information on price dynamics

- Paper defends oil price shock was unexpected and had deep, long-lasting effects on local labor market (supported by other uses of the shock in the lit)
  - → Need to make similar case for house price and rent dynamics (just as important)
- Assumption of constant price-rent ratio important conceptually and in model
  - → Data: rents fall more than twice as much as prices (-8.5% vs. -23%)
    - ⤔ Consistent with stories where renters adjust more quickly than owners
    - ⤔ But this is not in the model (constant price-rent ratio)
- Also: why are prices in Stavanger falling already before the oil shock?

Other comments

Conclusion

- Great, innovative work bringing a fresh look to a fairly crowded space on links between housing markets, labor and location choice
  - → An original channel is proposed, opening up a new avenue in the literature, which so far has focused on financial frictions – not easy!
  - → In the end the channel is actually very simple, at its core based on relative prices; income vs. substitution effects – cool!
    - ⤔ Probably rethinking and pushing toy model will help
- Very detailed empirical work and setting + interesting, rich model environment
- Model: reconciling with the financial frictions literature (e.g. including a more realistic mortgage) will likely be necessary
  - → It will be work, but also allow provide a lab to follow up with more research ideas!

Good luck for the next steps! :)

Thank you

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