Housing Market Dynamics

Toulouse, June 2006

In these lectures, I present recent developments in our understanding of housing market fluctuations. I focus primarily on my work with Prof. Sven Rady.

My first objective is to convey the contribution of our work to our understanding of the drivers of housing prices and transactions and to our understanding of the allocation of residential properties across households. Second, I believe there are lessons to be learned not only from the content of the papers, but also from the process whereby they were written. I will share with you how we got started in our research and how we struggled along the way. Third, I will explain how our research should inform your own housing consumption and investment decisions.

Below is a tentative schedule.

(A link to the different papers is provided on [http://research.bus.wisc.edu/fom/Toulouse.htm](http://research.bus.wisc.edu/fom/Toulouse.htm))

Lecture 1: Housing Market Dynamics: Income Shocks and Credit Constraints

- Motivation: Aggregate housing prices and transactions fluctuations, failures of the traditional approach
- Main building blocks: Housing as a consumption good, property ladder, credit constraints
- Basic Model: 1:0F 2:FH 3:FH
- Extension: first-time buyers of houses 1:0FH...
- Taking the theory to the data
- Lessons

The main reference for this lecture is


Other relevant papers include


Victor Rios-Rull's slides

Lecture 2: Credit Constraints, Tenure Choice and Housing Market Fluctuations

- Adding rented flats: credit constraint driven tenure choice
- Making sense of transactions in the UK: The 2 Million Question

The main references for this lecture are


Other relevant papers include


Lecture 3: Risk, Tenure Choice and your Local Housing Market

- The hedging benefits of homeownership
- Neighborhood composition
- The cab driver, the banker and the academic

The main references for this section are


Other relevant papers include
