

(Brief) discussion of Eitrheim and of Sørensen

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September 20, 2016

Danmarks Nationalbank, workshop on housing prices

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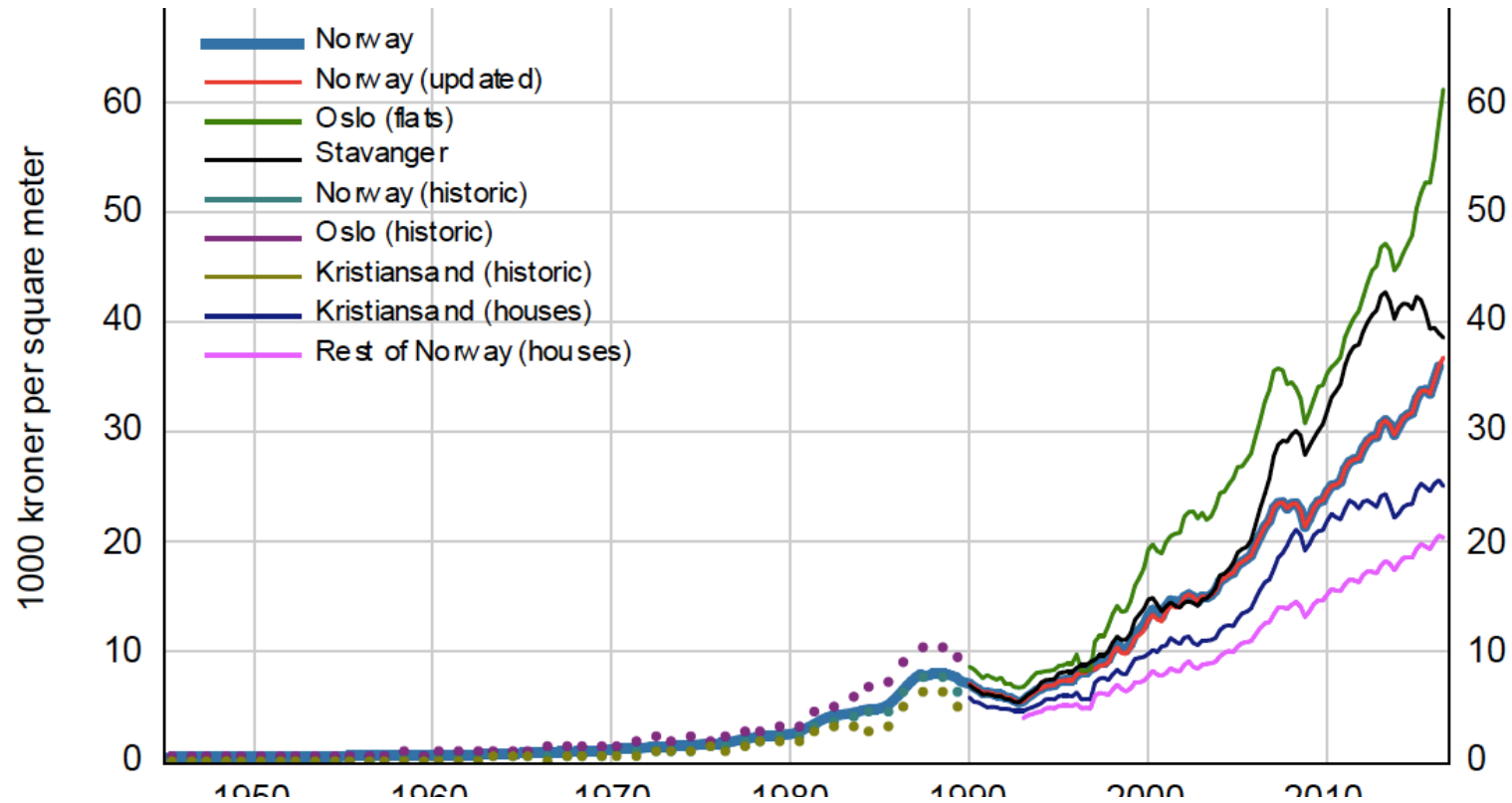
Purpose of the models

- Understanding the mother of all fundamentals in credit markets (because of collateral value): Property prices
- Detecting bubbles
- Assessing need for and impact of policy measures
- Intellectual curiosity

Three issues

- Heterogeneity
- Excess volatility
- Should policy target only user costs?

Heterogeneity



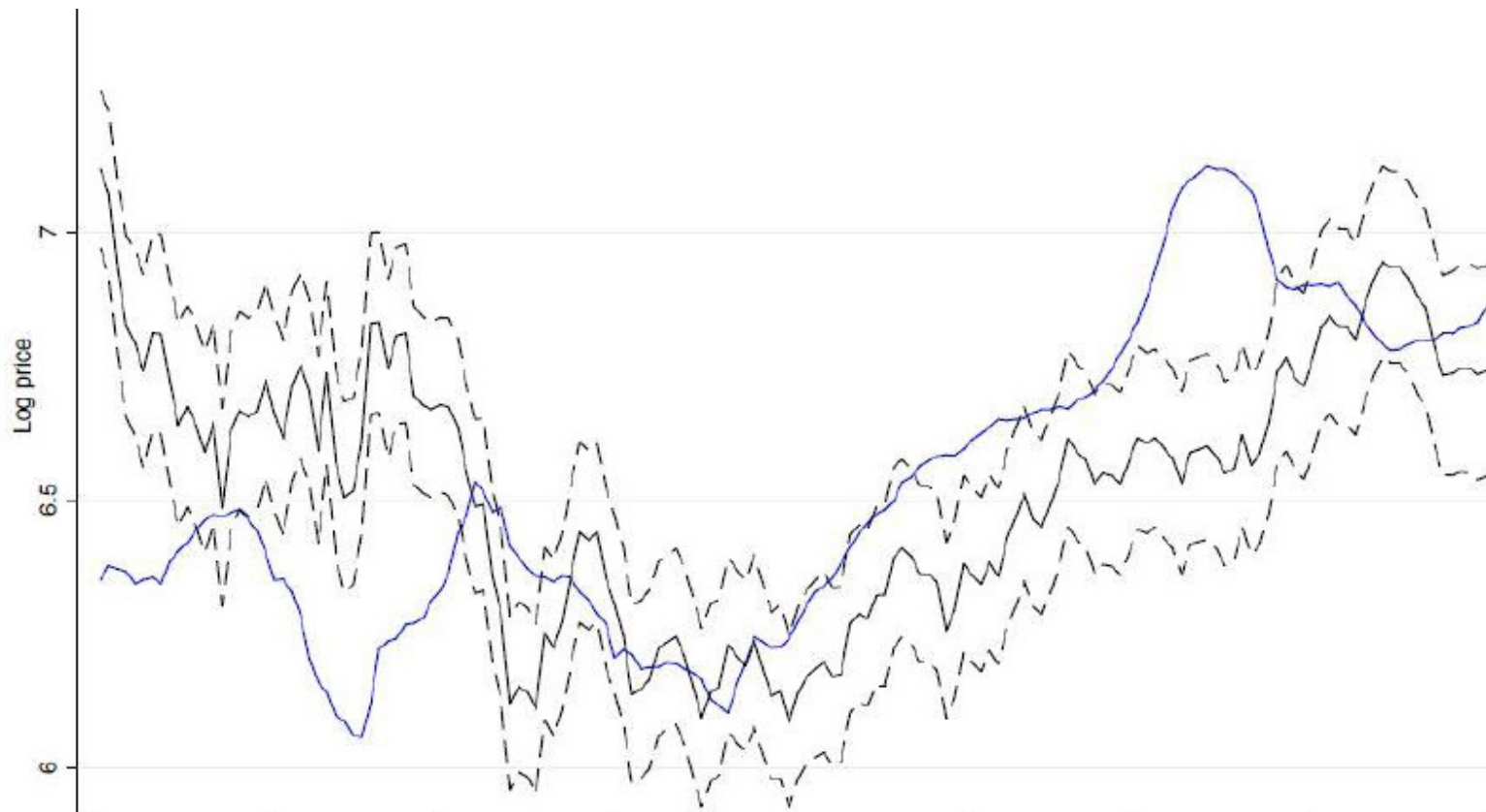
Disaggregation of models?

- When prices deviate from normal in asset pricing models, we look for price pressure, frictions,.....
- Example: Interest rate parities: credit risk, limited risk bearing capacity etc.
- We of course need some notion of fundamental model to define 'normal'
- But is the model of normal prices too focused on economy-wide measures of income, elasticities, etc. ?

Disaggregation of models?

- Can we get closer to sources of deviations?
- Demographics (urbanization)
- Parents buying houses for children (more wealth allocated to housing)
- Income distribution and income dependent income elasticity
- Illiquidity (transaction and search costs, safe haven effects?)
- What is the fundamental value in a region subject to demographic pressures?
- Scandinavia has the data to analyze this carefully

Excess volatility - as for stocks?



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What generates excess volatility?

- Changes in expected cash flows? User costs? Risk aversion?
- There is a very large literature taking the present value relations of asset pricing to use in housing:
- Price-rent instead of price-dividend. Campbell-Shiller...
- User costs assumed stationary – but stationary can be true even with stochastic mean reversion level
- Understanding price changes arising from changes in discount factors and in risk aversion

Policy recommendations – user costs only?

- Large transactions costs and frictions impede adjustment to equilibrium
- Is focus on user costs too narrow?
- Rent controls and other frictions (restrictions on how we can build, transportation)?
- Bring household data to use (demographics, use of leverage, portfolio choice with housing,...)