

Housing Wealth Effects: The Long View

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Abstract

We provide new, time-varying estimates of the housing wealth effect back to the 1980s. We exploit systematic differential city-level exposure to regional house price cycles to construct our estimates. Our main findings are that: 1) Large housing wealth effects are not new: we estimate large effects back to the 1980s; 2) There is no evidence that housing wealth effects were particularly large in the 2000s; if anything, they are larger prior to 2000; and 3) We find no evidence of a boom-bust asymmetry that might arise from households hitting their borrowing constraints. We compare these findings with the implications of a “new canonical model” of housing wealth effects. This model yields large housing wealth effects. It can also explain why housing wealth effects have not risen over time despite the “great leveraging” of households since the 1980s and, in particular, the sharp increase in leverage associated with the 2006-2009 housing bust.

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