ABSTRACT:
THE IMPACT OF NEW HOUSING SUPPLY ON THE DISTRIBUTION OF RENTS

ANDREAS MENSE
FRIEDRICH-ALEXANDER UNIVERSITY ERLANGEN-NÜRNBERG

29 June 2021 from 02.15-03.30 p.m. via Zoom

I estimate the impact of market-rate new housing supply on the local rent distribution. As an exogenous supply shifter, I exploit weather shocks during the construction phase that delay local housing completions. Instrumental variable quantile regressions show that a positive shock to new supply lets decrease rents of lower-quality units within months, whereas higher-quality units are affected with a lag. To explain this pattern, I estimate a quantitative dynamic model of housing quality and tenure choice. Estimated moving costs are equivalent to paying about 80% of net monthly income per move, restraining households from adjusting housing consumption to income changes. Consequently, prior to moving, the average buyer of a new home lives in rather low-quality housing. Hence, new market-rate housing supply frees up rental units across the housing quality distribution, thereby improving housing affordability for low-income households. This also shows that the rental and the owner-occupied housing markets are not decoupled. Although parts of each market may very well serve very different clienteles, the many direct connections between the low-quality rental and the owner-occupied markets contribute to arbitrage between the two markets.