

DECOMPOSING LOCAL HOUSE PRICE AND RENT DYNAMICS IN ENGLAND*

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Abstract

We identify the determinants of local house price and rent dynamics in England. Employing panel data for 353 Local Authorities (LAs) ranging from 1974 to 2018 (for house prices) and 1997 to 2018 (for rents), we demonstrate that house prices, rents, and the house price to rent-ratio respond more strongly to given contemporaneous labor demand shocks in LAs with tight regulatory constraints and physical barriers to development (i.e., long-term supply constraints). Our findings are consistent with a model that assumes (i) short-term construction lags and (ii) labor demand shocks that are serially correlated. Conditional on local demand and supply fundamentals, variables that capture the real economy at macro level are more important in explaining macro-level house price dynamics than credit conditions. The affordability crisis in Greater London is chiefly driven by strong and growing demand for housing in conjunction with tight long-run supply constraints rather than by global investor demand or interest rates.

JEL classification: G12, R11, R21, R31, R52.

Keywords: house price dynamics, labor demand, housing supply constraints, land use regulation, interest rates, credit conditions.

The paper is Currently under revision. We aim to make the complete revised paper available during July or August 2020.

1. Introduction – Currently under revision.

2. Theory – Currently under revision.

3. Empirical Strategy – Currently under revision.

3.1. *Data*

3.2. *Identification*

3.2.1. *Local Labor Demand Shocks*

3.2.3. *Identifying Regulatory Supply Constraints*

3.2.4. *Identifying the Share of Developed Land*

4. Local Labor Demand Shocks and Supply Constraints – Currently under revision.

4.1. *Estimating Equation*

4.2. *Baseline Results*

4.2.1 *House Prices*

4.2.2 *Rents*

When local housing demand increases, rents should also increase in markets where housing supply is not perfectly elastic. Moreover, in the medium term, the effect of a demand shock on rents should depend on the elasticity of housing supply. In order to address these questions, as the next step, we consider rents instead of house prices as the outcome measure. Table 3 displays the results.

4.2.3 *Price-Rent Ratios*

4.3. *Quantitative Impacts of Labor Demand Shocks in Conjunction with Supply Constraints*

4.4. *Robustness*

5. Macroeconomic Determinants of House Prices – Currently under revision.

5.1. *Regression in First Differences*

5.2. *Relative Importance of Credit Conditions and the Business Cycle*

6. Unexplained Variation at the County Level – Currently under revision.

6.1. *Measuring the Remaining Systematic Variation at the County Level*

6.2. *Can Differential Impacts of Aggregate Credit Conditions Explain the Remaining Systematic County-Level Variation?*

6.3. *Global Investors' Demand for London's Residential Real Estate*

6.4. *National and Local House Price Cycles*

7. **Conclusions** – *Currently under revision.*

References – *Currently under revision.*

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TABLES – *Currently under revision.*

FIGURES – *Currently under revision.*

APPENDICES

Appendix A: Proofs – *Currently under revision.*

Appendix B: Detailed Description of Data and Sources – *Currently under revision.*

Appendix C: Appendix Tables – *Currently under revision.*

Appendix D: Appendix Figures – *Currently under revision.*