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**A SPECIAL ISSUE
ON HOUSING AFFORDABILITY:
AN INTRODUCTION**

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A Special Issue on Housing Affordability: An Introduction

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Abstract

This short note introduces a forthcoming special issue on housing affordability. It tries to relate to the recent literature as well.

Keywords: housing affordability; demand and supply; policy implications; structural model;

JEL classification: E30; H20; R30

A casual search of “housing affordability” (HA) on Google delivers more than 190,000,000 results. While it is an imprecise measure, it confirms that HA is a global concern. Recent studies on the topic have been discussed by Ben-Shahar et al. (2020), Deng et al. (2019), Gabriel and Painter (2020), Leung (2022), among others.

Motivated by the vast demand for affordability research, we organized a virtual workshop titled "Post-Crisis Housing Market and Financial Stability: Recovery without Affordability?" in July 2020. We thank Yin-Wong Cheung, who co-organized the workshop, and the City University of Hong Kong for the support. When planning the workshop in 2019, we considered the world after the Global Financial Crisis in 2008. Little did we know that the COVID-19 pandemic would impact the world on such, and probably larger, scale. Therefore, we appreciate the effort by Malpezzi (2022), who surveys the housing affordability issue post-COVID-crisis. While the impact of COVID may still be evolving (Wang et al., 2022) and the global economic situation could deteriorate with the Russia-Ukraine War (United Nations, 2022), we believe that Malpezzi (2022) will serve as a useful reference for future research.

Previous research on housing affordability focuses on the demand side. Recent efforts pay attention to the supply side, including the real estate developer behaviors (e.g., Fan et al., 2022). In this special issue, Sun and Yiu (2022) examine the default probabilities of real estate developers in five ASEAN countries (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) with firm-level data. If many real estate developers default at the same time, the new supply of housing will be affected, and house prices will also be affected. The firm-level approach is also in line with the current research trend.

A distinct feature of this special issue is our balance of theoretical analysis, empirical evidence, and policy implications. The three other papers make use of structural models to produce sharp interpretations. For instance, Leung and Tang (2022) construct a dynamic equilibrium model where the house price-to-income ratio (PIR) evolves endogenously. PIR is a commonly used metric, but its equilibrium dynamics were not explored. Leung and Tang (2022) fill this gap. Based on their model, they derive a statistical test for detecting persistent deviations of PIR from the steady-state values. They also apply their model to OECD data.

Yao (2022) documents that the drop in American youth homeownership is mainly driven by non-college-educated workers. She then develops an overlapping generations model to rationalize such a phenomenon. She finds that the root reasons are the rising college share and the widening of college premium. Based on her model, she recommends that eliminating mortgage interest tax deduction can increase the homeownership rate of non-college-educated workers.

Last but not least, Yılmaz and Yeşilirmak (2022) build a spatial equilibrium model and compare the housing vouchers with the transportation vouchers. Unlike the traditional model with a unique employment center, the central business district (CBD), their model features multiple employment centers. They find that the housing vouchers affect the spatial ordering of households through the income effect, while transportation vouchers affect the spatial ordering through the marginal cost of commuting. The "losers" lose less in terms of welfare under transportation vouchers.

All these analyses and results presented in this special issue are far from the "final words" on the housing affordability issue. Instead, we hope they will stimulate further investigations on the topic, and we look forward to learning more from future research.

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