

WWZ Research Seminar
Faculty of Business and Economics, University of Basel

Tuesday, May 23, 2023

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"Renting Hedges Wage Risk" (joint with
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Abstract

Homeowners and renters have mirror-image exposures to the considerable volatility in housing costs. The welfare effects of these exposures depend on their correlations with the rest of household portfolios. Using 70 years of data on local markets in the U.S., we find that rents and home prices are strongly positively correlated with wages at all horizons. As a result, wage risk is hedged by renting and exacerbated by owning. These interactions with wage risk are strong enough that for many households, renting is not only safer than owning, it is safer than full housing insurance. This highlights an important cost of owner-occupied housing and the many major policies that encourage it.

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