

CREDIT CONSTRAINTS AND THE COMPOSITION OF HOUSING SALES. FAREWELL TO FIRST-TIME BUYERS?

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Abstract

During the housing bust of 2008–2009, housing prices and transaction volumes fell across the United Kingdom. While the drop in prices was similar across housing types, transaction volumes fell more for units at the lower end of the market. I document this fact and provide panel and instrumental variable estimates showing its link with tightening credit conditions in England and Wales during 2008. I then use an overlapping-generations framework to relate the change in the composition of sales with the reduction in loan-to-value ratios by British banks and to derive additional predictions. As down-payment requirements increase, young households with scarce financial resources are priced out by older owners who retain their previous houses as rental properties when trading up. Recent changes in aggregate housing tenure, disaggregated changes in renting, and sales in areas with different age compositions, are consistent with these predictions. The results presented here show how the composition of sales changes over the housing cycle and may inform ongoing policy discussions about reduced access to home-ownership by the young. (JEL: R31, G21)

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