Sticky Continuing-Tenant Rents: Discussion

Chris Cotton

October 25, 2024

The views expressed in this discussion are the authors' and do not necessarily reflect the views of the Federal Reserve Bank of Boston.

Context

- Paper lies in intersection of monetary and housing economics
- Key question in monetary is the frequency of price-setting:
  - Affects the slope of the Phillips Curve and passthrough of MPS
- Frequency of price change available for most products:
  - Nakamura Steinsson (2008) give frequencies for products at ELI level in CPI Commodities & Services (C&S) Survey
- Exception:
  - Housing is assessed in separate survey
  - Until now not used for research
- Until now, the best measure for US:
  - Genesove (2003): uses data from 1974–1981 from Annual Housing Survey and only measured yearly
- The measures available for other countries are also limited

CPI Housing Survey

- ▶ First authors to make use of this great dataset
- ▶ Data structure:
  - ▶ Dwellings assessed every six months for six years
  - ▶ Asked about their current rent and features of their dwelling
- ▶ Purpose of survey:
  - ▶ Data used to measure CPI rent and CPI owner-equivalent rent i.e. 36 percent of CPI
  - ▶ These series are in turn used to construct PCE housing
- ▶ One earlier paper using same dataset by authors:
  - ▶ Adams Loewenstein Montag Verbrugge (2024)
  - ▶ Construct New Tenant Rent Index i.e. market rent in CPI shelter data
  - ▶ Use to show that CPI shelter lags market rent due to composition of shelter

# Results on Shelter Dynamics and Rent Frequency

1. Most of the movement in inflation is driven by continuing tenants
   - Importance of continuing tenants has fallen as movement has decreased
   - Similar parallels to price changes for new v continuing products in CPI C&S
2. The frequency of rent has risen in recent periods but remains quite sticky
   - 40 percent of rents change over a six month period - relative to 30 percent prior to 2015
   - Relatively low frequency of price change compared to other products

Results on Rent Gap

- ▶ Construct measure of rent gap:
  - ▶ Gap between market rent and continuing rent
- ▶ Results on rent gap:
  - ▶ Rises (falls) when market rent rises (falls) and then returns to baseline gradually
  - ▶ Examine how rent gap affects hazard rate (probability of rent change) and moving probability
- ▶ Rent gap can play an important role in forecasting CPI shelter (Cotton, 2024):
  - ▶ When the rent gap is high (low), CPI shelter grows faster (slower)
  - ▶ Including the rent gap reduces the forecast mean squared error (using real-time data) by 70 percent
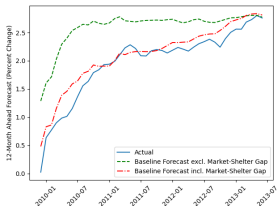
(a) Great Recession
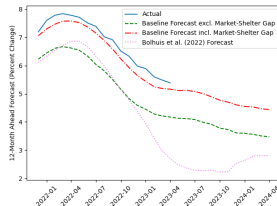
(b) Post-Pandemic

Summary of Thoughts

- Clear advance (for monetary and housing) in measuring the frequency of rent and related dynamics
    - Rent spending represents 10.5% of CPI spending (36% including owner's equivalent rent)
    - Allows authors to assess appropriate price-setting model for rent
- I provide four comments:
    - Three relate to broader economic implications
    - One is a clarifying point on the analysis

Comment 1: Variation in Frequency of Rent from Inflation

▶ Significant literature looking at relationship between trend inflation and frequency of price change:
  ▶ Use to assess price-setting
  ▶ Broader implications for dynamics of Phillips Curve (Blanco et al 2024, Pasten et al 2024)

▶ Suggestive results in paper of link between inflation and frequency:

(a) Rent Change Frequency: Continuing Tenants
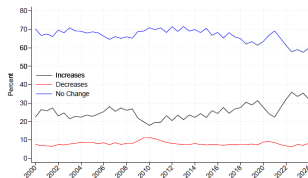
▶ Could analyze further:
  ▶ Large MSA-level differences in shelter
  ▶ Look at how MSA-level frequency changes in response to MSA-level shelter inflation

Comment 2: Could High Rent Growth Contribute to the Reduction of Movement?

- ▶ Two results in paper (?):
  - ▶ Higher rent gap reduces probability of moving
  - ▶ Higher CPI shelter raises rent gap (?)
- ▶ Putting these together:
  - ▶ Could high CPI shelter growth since 2010 help to explain the large drop in tenant movement that has been observed since 2010?
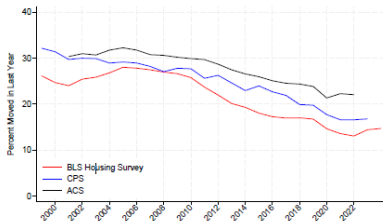
- ▶ Should be possible to estimate using the results here (under certain assumptions)

Comment 3: Implications of Seasonality

▶ The authors show rents tend to change on an annual basis
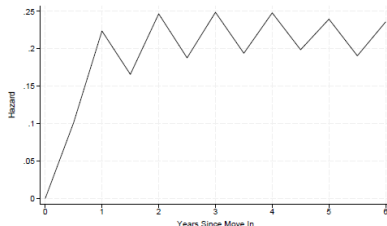
▶ Households begin contracts more frequently in the summer than winter

▶ Together this implies that the frequency of rent is higher in the summer and lower in winter

▶ This contrasts to other items which tend to show higher seasonality at the start of the year (Nakamura Steinsson 2008)

▶ Suggests differences in how households might consume:
   ▶ Renters may have lower income after housing expenses in the summer relative to homeowners

Comment 4: Low Variation in Importance of Continuing Tenants

- ▶ I was surprised by how little variation there was in the weight of continuing tenants in the post-pandemic period
- ▶ The New Tenant Rent Index grew Y/Y by 12 percent 2021Q4 compared to 4 percent for all tenants
  - ▶ In normal times, new/continuing rents grow by the same amount
- ▶ I would have thought this would lead to a significant rise the weight share of new tenants
- ▶ Not seeing in statistics:
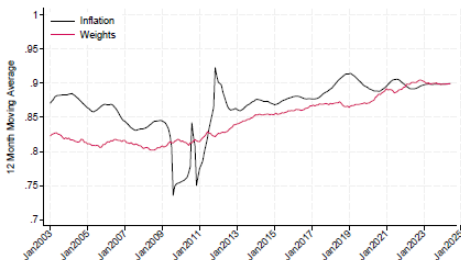
Thank You!

Minor Comments for Authors Only

- I didn't understand the second half of the paragraph in Section 2 beginning "In almost all of our analysis" from the sentence beginning "While most renters have annual leases".

- I would rewrite the notation so that you have π_{t-1}^t in equation 1 and other places where this applies. π_t^{t+12} is also a bit confusing as it sounds like a forecast. I would put π_{t-12}^t.

- "As is well known, jump rate inflation is notoriously large, reflecting continuing tenant discounts that have been studied in the literature, and that we will discuss in the sequel." What is the sequel??

- It would be good to explain how the exercise you do in section 3 with $\pi_{c,t}^{t+12}$ and $\pi_{n,t}^{t+12}$ relates to your New Tenant Rent Index

- You may want to briefly discuss the sawtooth shape of Figure 3. I had expected it would be more dramatic due to 12-month contracts and was surprised the 18-month/30-month didn't show smaller changes.

- You may want to provide more detail on why you chose CoreLogic to construct the rent gap for people outside housing