

The Correlation between Rental and Housing Market Variables

Nitish Kumar

University of California, Riverside

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Abstract

I present empirical evidence that rental vacancy rate is correlated with prices and liquidity in the housing market. A decrease in rental vacancies is associated with a “hot” housing market and vice versa. I develop a search and matching model of the housing market which incorporates a rental market with frictions. The model has free entry of sellers and potential tenants, however, buyers must enter through the rental market. Thus, the model does not consider rental and housing markets as substitutes but rather, rental market acts as a gateway to the housing market. Buyers are heterogeneous in how much they value being a home-owner. The calibrated model matches the rent to price ratio and the vacancy rate in both markets.

Keywords— Housing market, Rental vacancy, Search and Matching, Housing liquidity