The Cross-Section of Housing Returns*

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Abstract

We document large systematic variations in the return to single-family residential property within U.S. metropolitan areas. Areas with low income, low credit scores or high shares of black residents have higher yields and therefore higher returns. Yield spreads between low credit areas and high credit areas widened considerably during periods when credit availability was low. This causes the areas with higher returns to also have higher risk, in sample. However we argue that the excess return that some areas earn is not purely compensation for bearing extra risk but is rather evidence for segmented housing markets where different local discount rates price local assets.

*The views in this paper are those of the authors' and do not reflect the opinions of the Federal Reserve Bank of Boston, the Federal Reserve Bank of Cleveland, or the Federal Reserve System.

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