Discussion of "Aggregate Rate Changes, Local Rent Growth: The Mortgage Lock-in Channel" by De la Roca, Giacoletti and Liu

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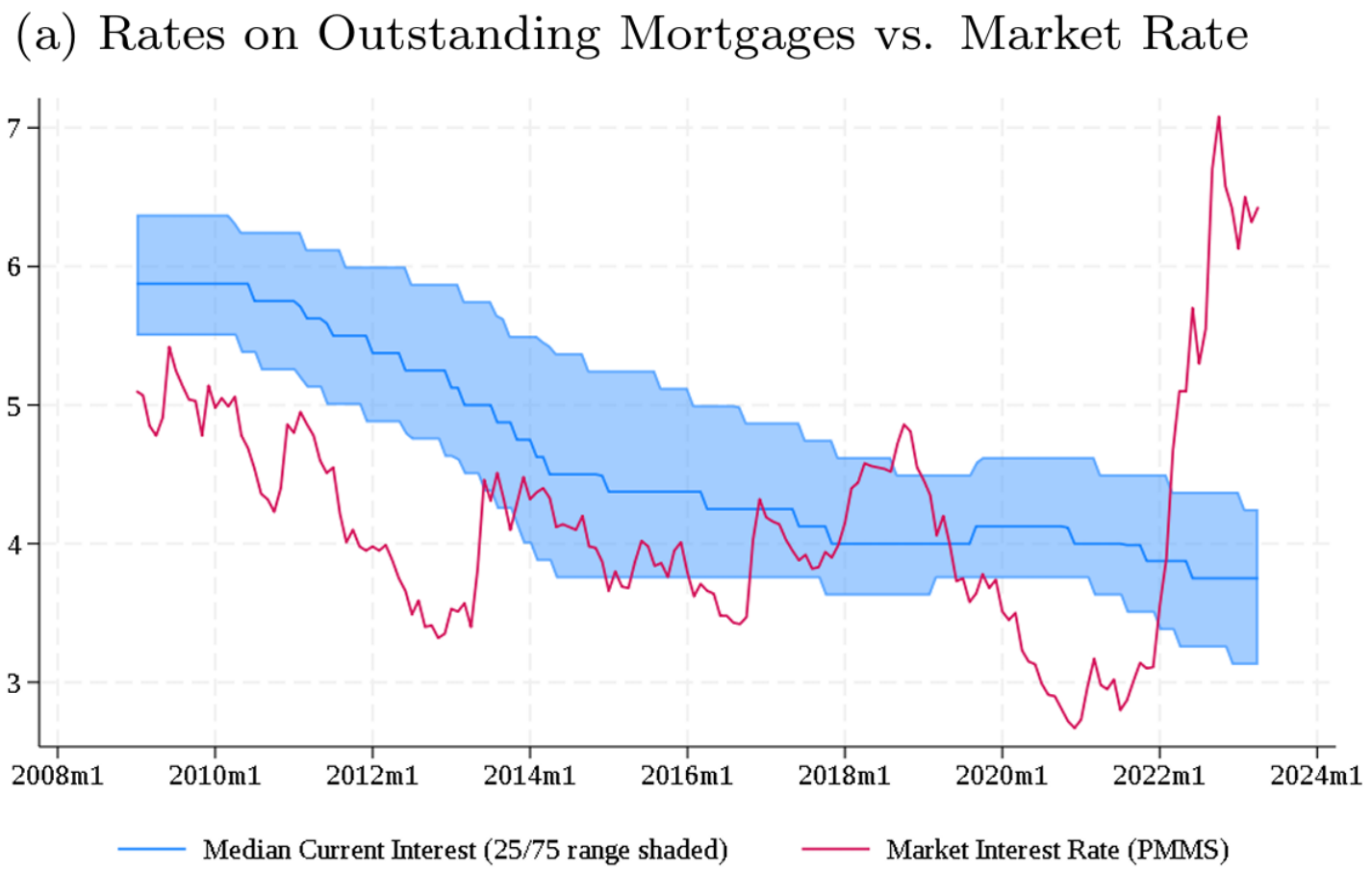
Significant mortgage lock-in in recent years due to sharp rise in rates…



Source: Aladangady, Krimmel and Scharlemann (2025)

This paper – how does lock-in affect the *rental* market?

- Key finding -- higher "local" mortgage lock-in leads to tighter rental market (higher demand):
  1. Higher rents
  2. Lower rental property time-on-market
  3. Shift in transaction volume from for-sale to rental
  4. Conversion of owner-occupied properties to rental units

  N.B. "Local" here typically means a 1-mile radius (but paper also looks at zip codes etc.)

- *Mechanism* (matching model): Lock-in reduces supply of homes offered for sale
  - Then increases rental demand because rental and for-sale properties are substitutes
  - Empirically, lower supply dominates lower demand from locked-in homeowners who don't move

General reactions

- Very nice, carefully done paper on an important topic. Definitely worth your time!
- Fantastic data work combining a large new (to me anyway) dataset on rents from RentHub with data on property transactions and mortgages from Cotality
- The results are very intuitive and overall I believe the story.
- Beyond lock-in, paper speaks to broader issue in housing economics – rental and for-sale markets are integrated, but imperfectly so. This paper presents new evidence on degree of integration.

Comments

1. General equilibrium / aggregate effects

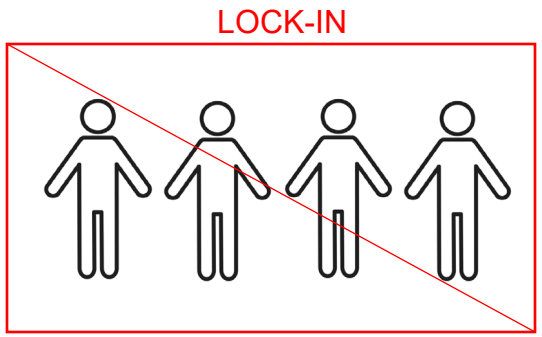
2. Magnitudes and omitted variables

3. Policy solutions

1. General equilibrium

- Not (yet) clear to me what I should take away about the *aggregate* effects of lock-in on *aggregate* rents in the economy

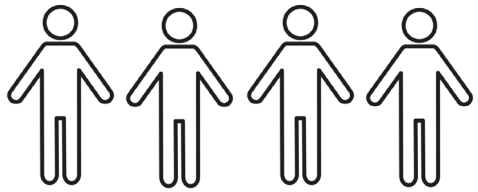
Housing Market A



Higher home prices and rents

Overall effect on rents aggregating across both markets?

Housing Market B



Lower home prices and rents (?)

1. General equilibrium

- If lock-in is particularly severe in location A, this will:
  i. **Reduce** housing **supply** in market A (locked-in homeowners won't sell)
  ii. Somewhat **reduce** housing **demand** in market A (locked-in homeowner not looking locally)
  iii. **Reduce** housing **demand** in *other* markets (locked-in homeowner not looking elsewhere – outside 1 mile)

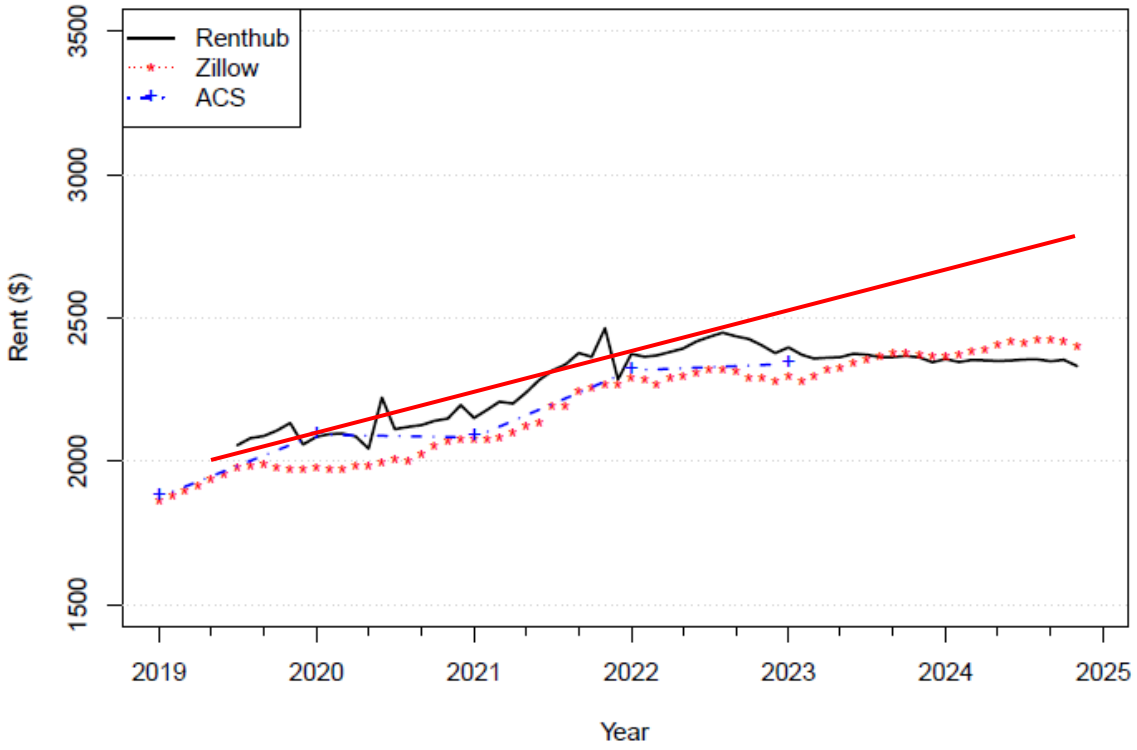
- Empirics "just" show that rents in location A rise *relative* to other places ("missing intercept")

$$log(Rent)_{i,t} = \beta LockPayGap_{i,t,l} + AX_i + \phi_c + \phi_{SD,ym} + e_{i,t},$$

- Why might there be aggregate effects?
  1. In matching models, what matters is *ratio* of buyers to sellers -- E.g., Aladangady et al. (2025) find that lock-in increased aggregate home prices by 8% but only because initial housing market conditions were tight
  2. Lock-in might reduce aggregate net supply if some people move but don't sell or rent out their old home
  3. Life-cycle effects – would *reduce* housing demand if locked-in borrowers are young and can't trade up

Overall rent trends

- In time-series, overall CA rent growth *flattens* after interest rates rise in 2022 …
  - … although certainly other factors also at play (e.g., new multifamily housing coming online)

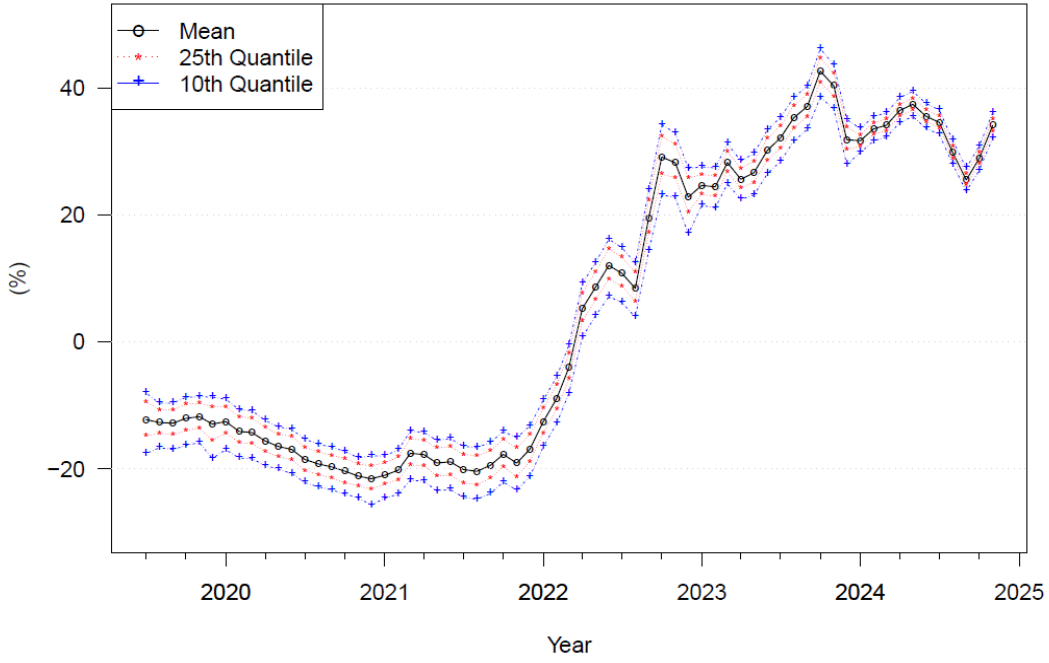


(a) Rents in California

2. Magnitudes and omitted variables

- Related -- effects on rents quite large given limited cross-sectional variation in rate-lock (left).
  - **Effect size**: 3% higher rents when split sample by above vs below median lock-in. Reasonable?
  - Clearly can't just "add up" to find aggregate post-2021 effect on rents (10-20 std event)!
- To further convince us, paper could do (even) more to rule out unobservables:
  - Locked-in areas less exposed to forces driving rent slowdown post-2021? (e.g., multifamily construction)
  - Suggestions: (i) use ACS to look for differential trends in pop., income, housing units etc. (same design); (ii) balance table of local characteristics by lock-in status

Distribution of rate lock payment gap (1 mile radius)

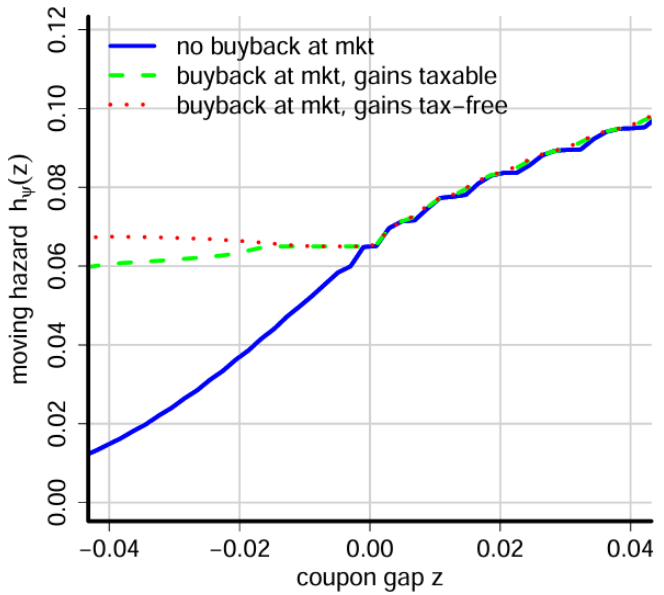


3. Policy solutions

- Recent literature (and even policy discussion) on mortgage rate-lock has focused on diagnosing the problem and documenting its effects; relatively less on solutions.
  - Hard to change existing mortgage contracts …
  - … but could imagine changes in contract structure that could reduce rate-lock distortions in the future

- Recent paper by Berger et al. (2026) focuses on idea borrowed from Danish mortgage market – allow borrowers to repurchase their loan from MBS pool at the *market* price
  - Allows borrowers to sell home without transferring value of their low-rate mortgage to the MBS investor
  - Berger et al find this is a better solution than offering mortgage portability / assumability, and would have only limited ex ante effects on mortgage rates

(b): Moving hazard $h_\psi(z)$



4. Summing up

- Very nicely-executed paper isolating effects of lock-in on local rental markets
- Beyond lock-in, important general insights about the degree of integration between for-sale and rental housing markets
- Great data work, and lots of scope to use these data to do further analysis of rental markets – exciting and previously understudied area where a lot of great work is being done.

Thanks!