Housing Investment and Portfolio Allocation
(Job Market Paper)

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Abstract

This paper uses comprehensive life-cycle portfolio allocation model to address the effects of housing investment on the portfolio allocation of households. The model shows that housing investment has a strong crowding out effect on investment in the risky asset throughout the life-cycle. The study also shows that, while the size of down-payment has sizable negative effect on investment in the risky asset, house price stochasticity has positive effect on households' risky asset investment. On the other hand, liquidation costs associated with a house sale have a negligible impact on households' investment decision. The model further predicts that homeowners are, by and large, wealthier than renters and invest more in the risky asset than renters.