

Negative Capital Shock, Overseas Buyers, and Housing Market

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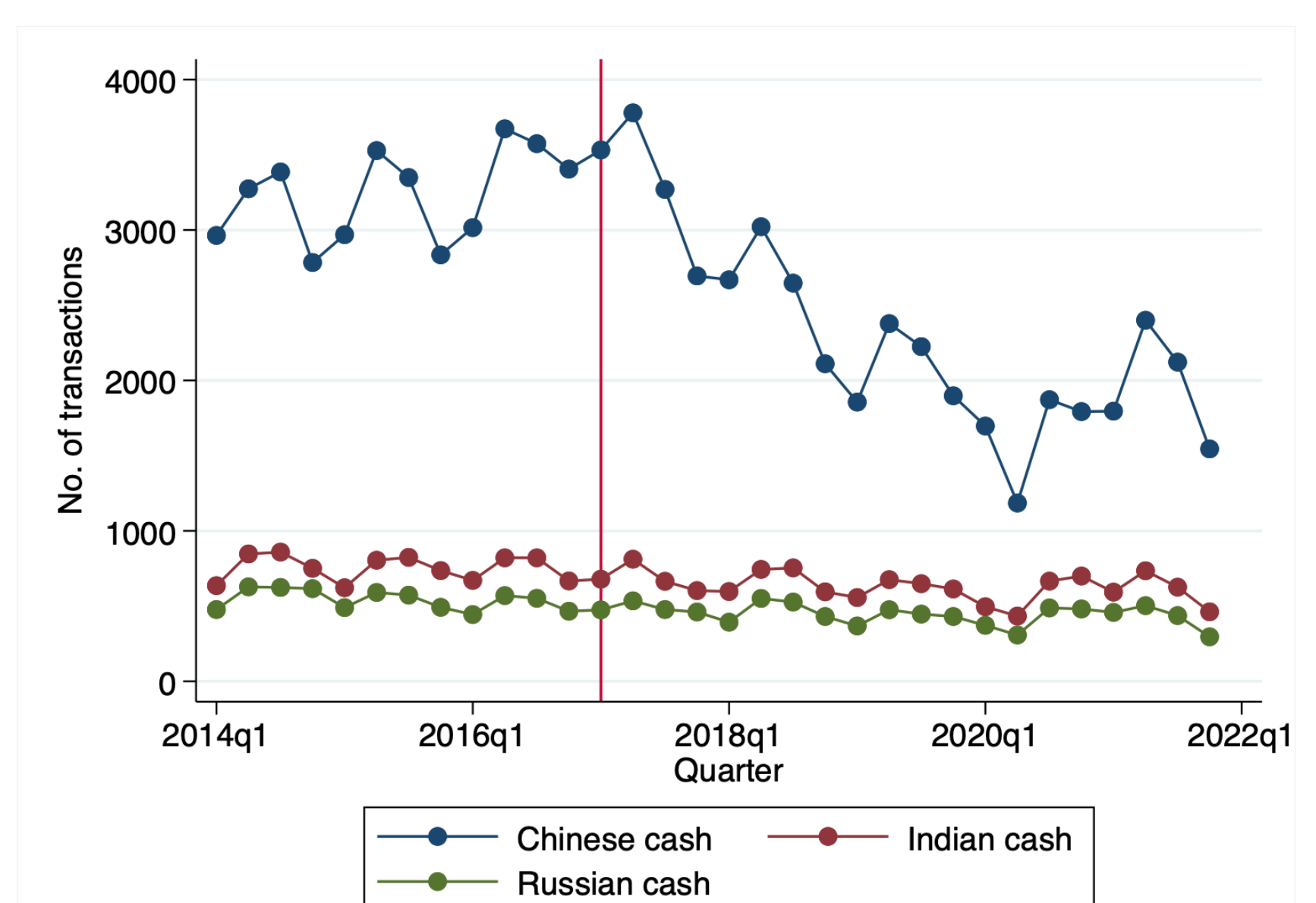
Motivation

- Foreign capital inflows into local housing market have become common
- Politicians often blame foreign capital inflows for pushing up local house prices and reducing affordability
- Focusing on positive demand shocks from foreigners, the literature finds foreign buyers:

- Pay premiums for homogeneous houses
- Lead to higher house prices
- Crowd out low-income buyers and renters
- Result in net welfare loss

Methods

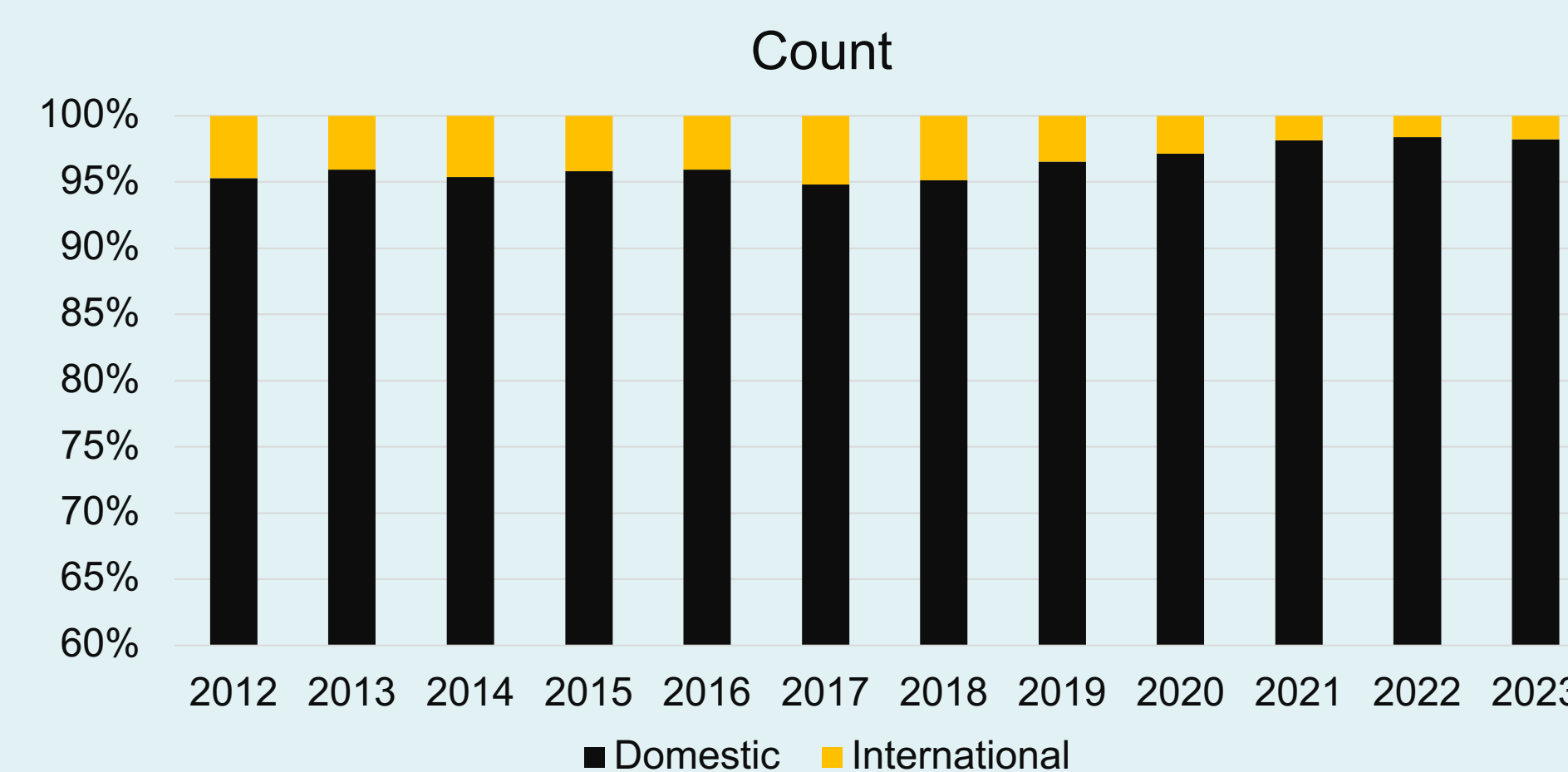
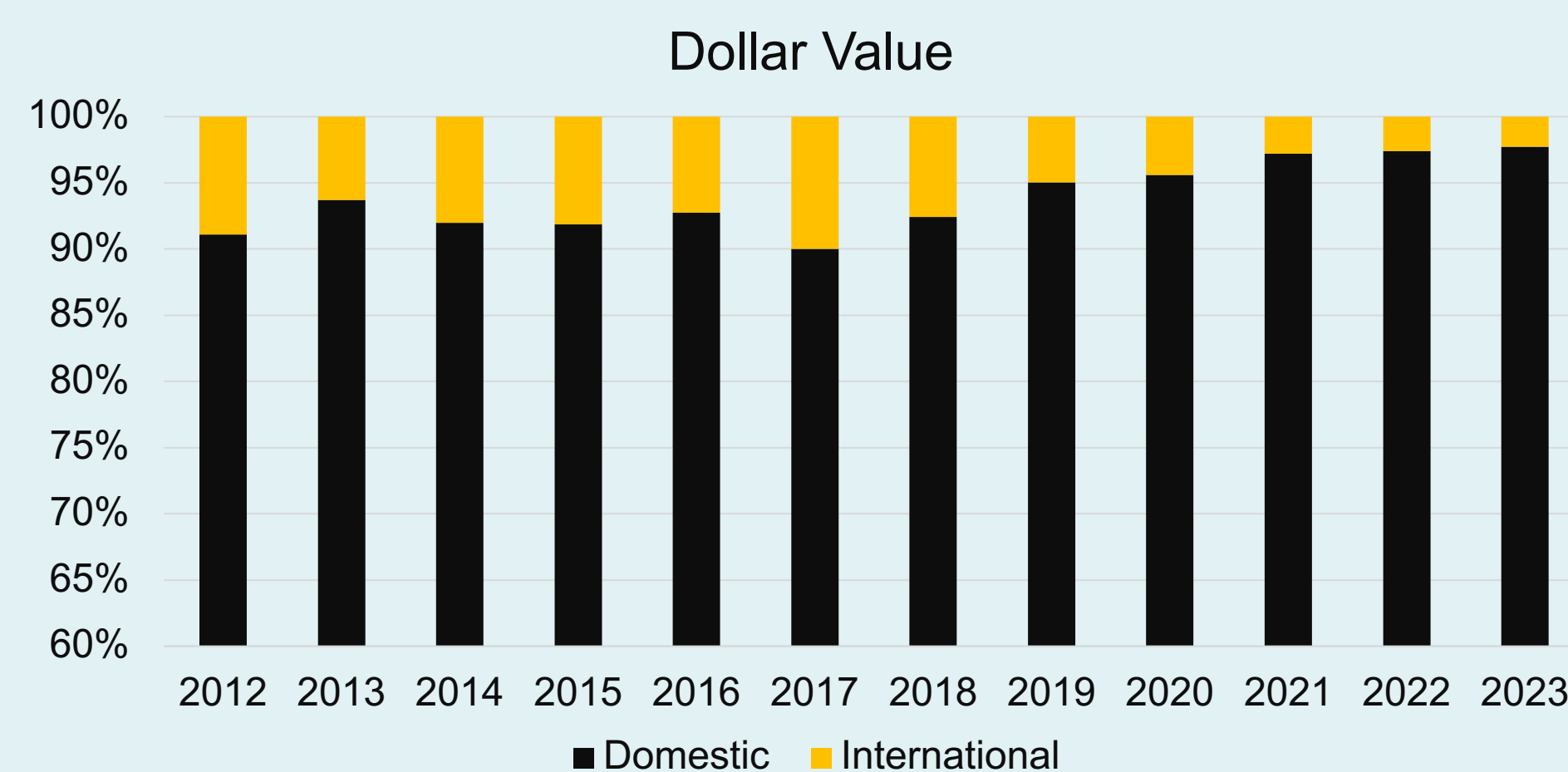
- U.S. county deeds records from 2014 to 2021
- Single-family homes
- House price index at ZIP code level
- Foreign = ethnic name + "all cash" transaction: China, India, Russia
- Natural experiment under a difference-in-differences framework: Post = 1 if year >= 2017



Policy Background

- China's stricter foreign exchange purchase quota management on its citizens was announced in Jan 2017
- Prohibition on investments: real estate, foreign securities, and certain insurance products
- Banks are required to verify the usage of personal foreign exchange

Cut off the most convenient way for Chinese citizens to obtain enough foreign exchange to purchase real estate assets overseas!

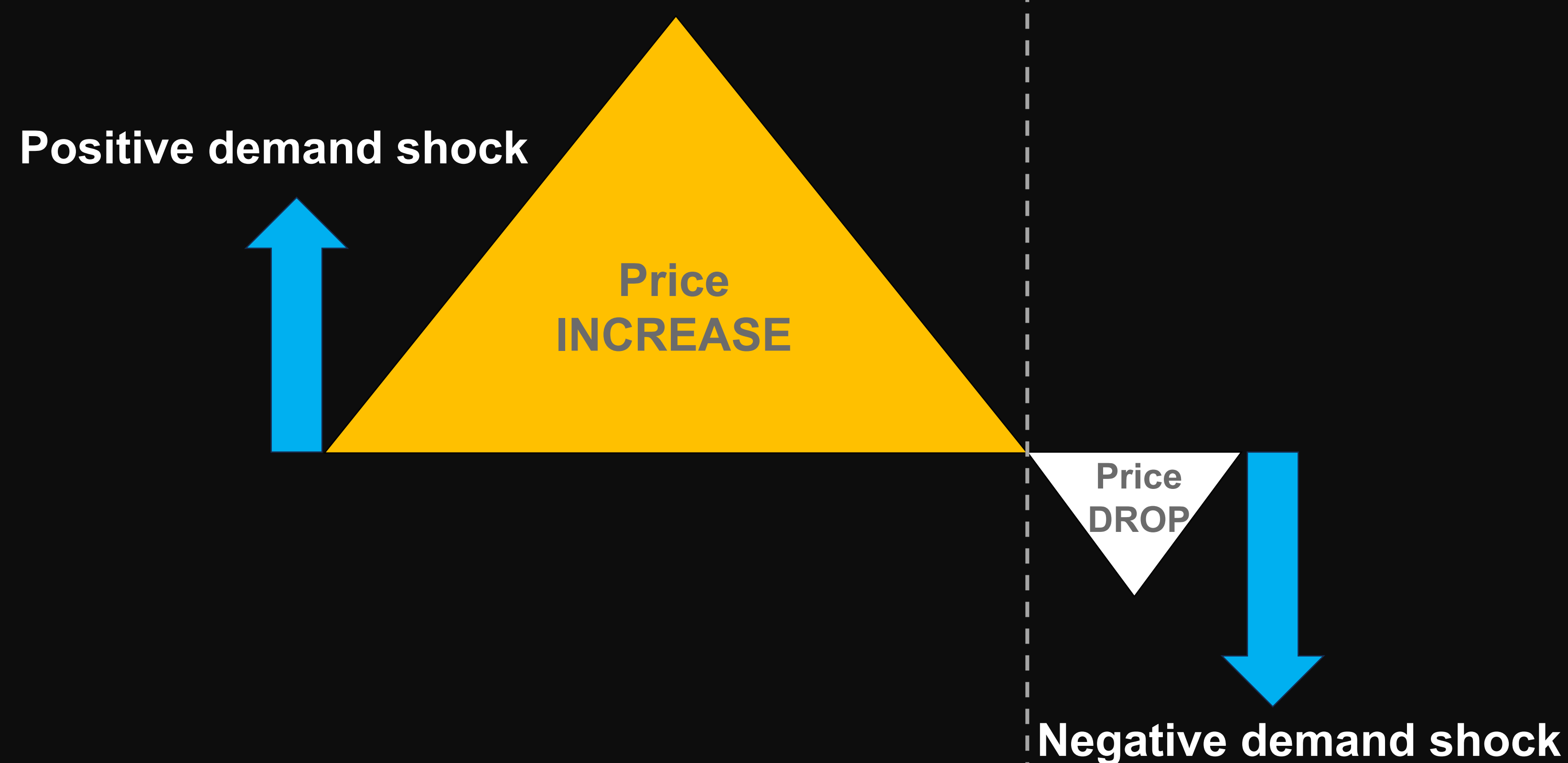


International Residential Real Estate Transaction Share in the US
Data source: National Association of Realtors

Foreign buyer's tax: Singapore, Hong Kong, Vancouver
Direct ban: Florida Senate Bill 264

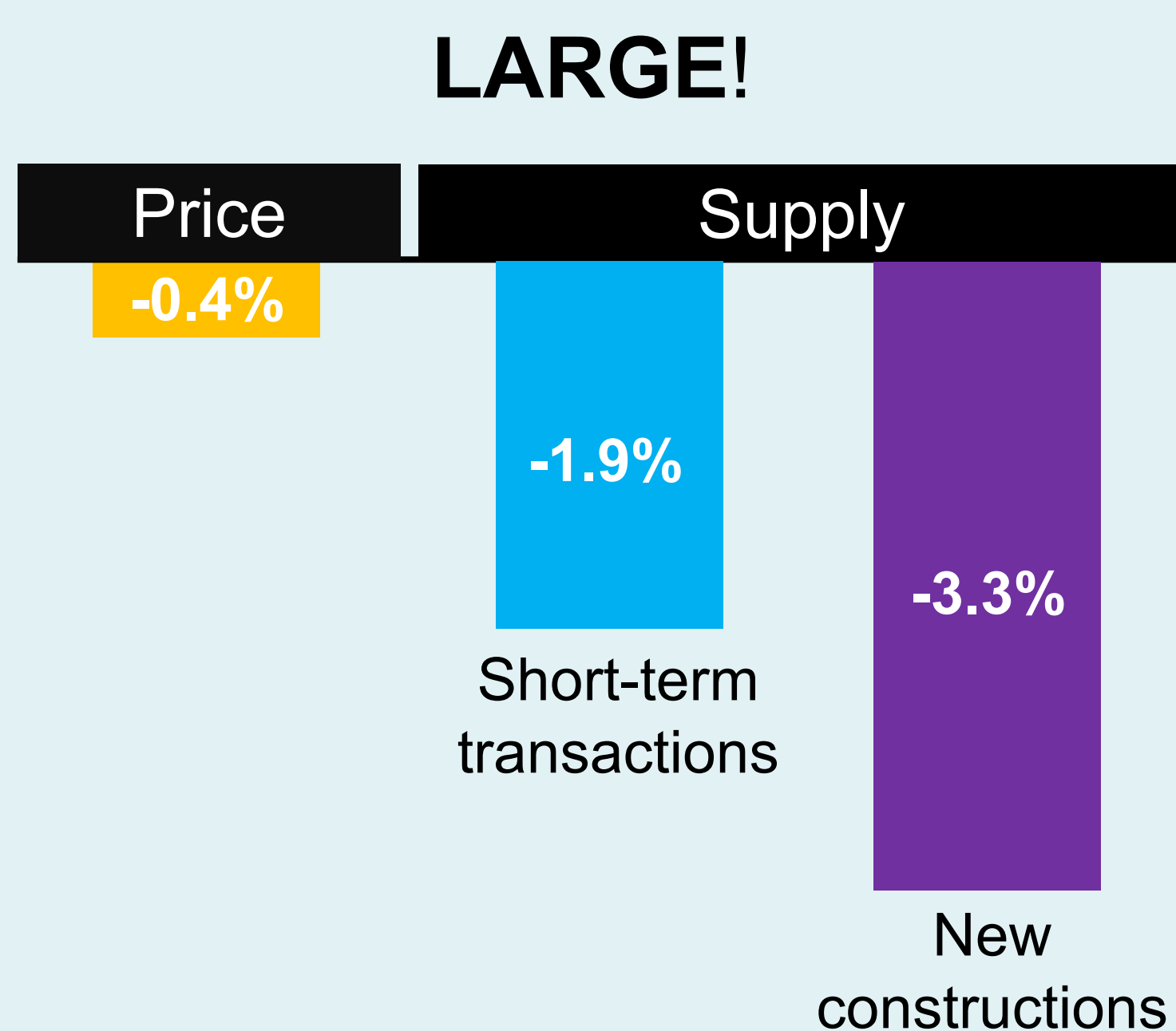
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If foreign capital inflows into the local housing market were to drop, would house prices **DECREASE** to the same extent that they **INCREASE**?

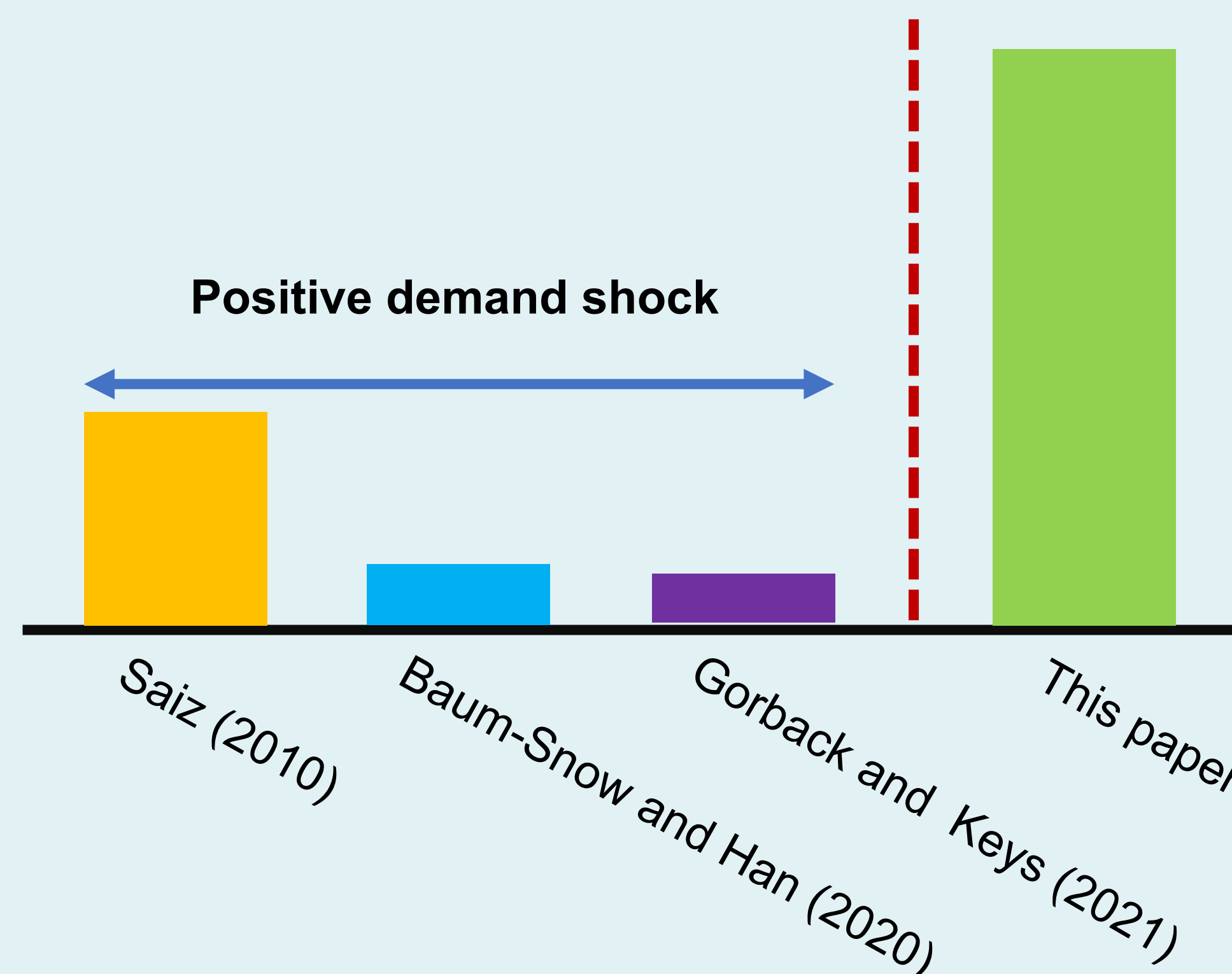


Asymmetric Effects on House Prices

Implied housing supply elasticity under this negative capital shock is



Price and Quantity Reactions to the Negative Capital Shock



Comparisons of Housing Supply Elasticities

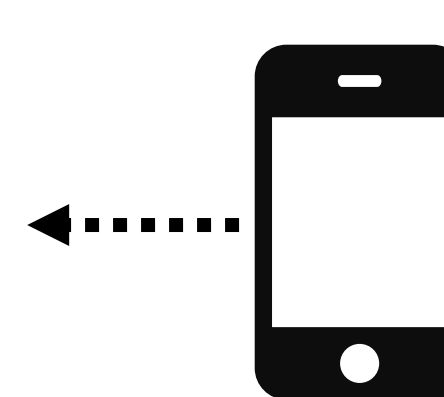
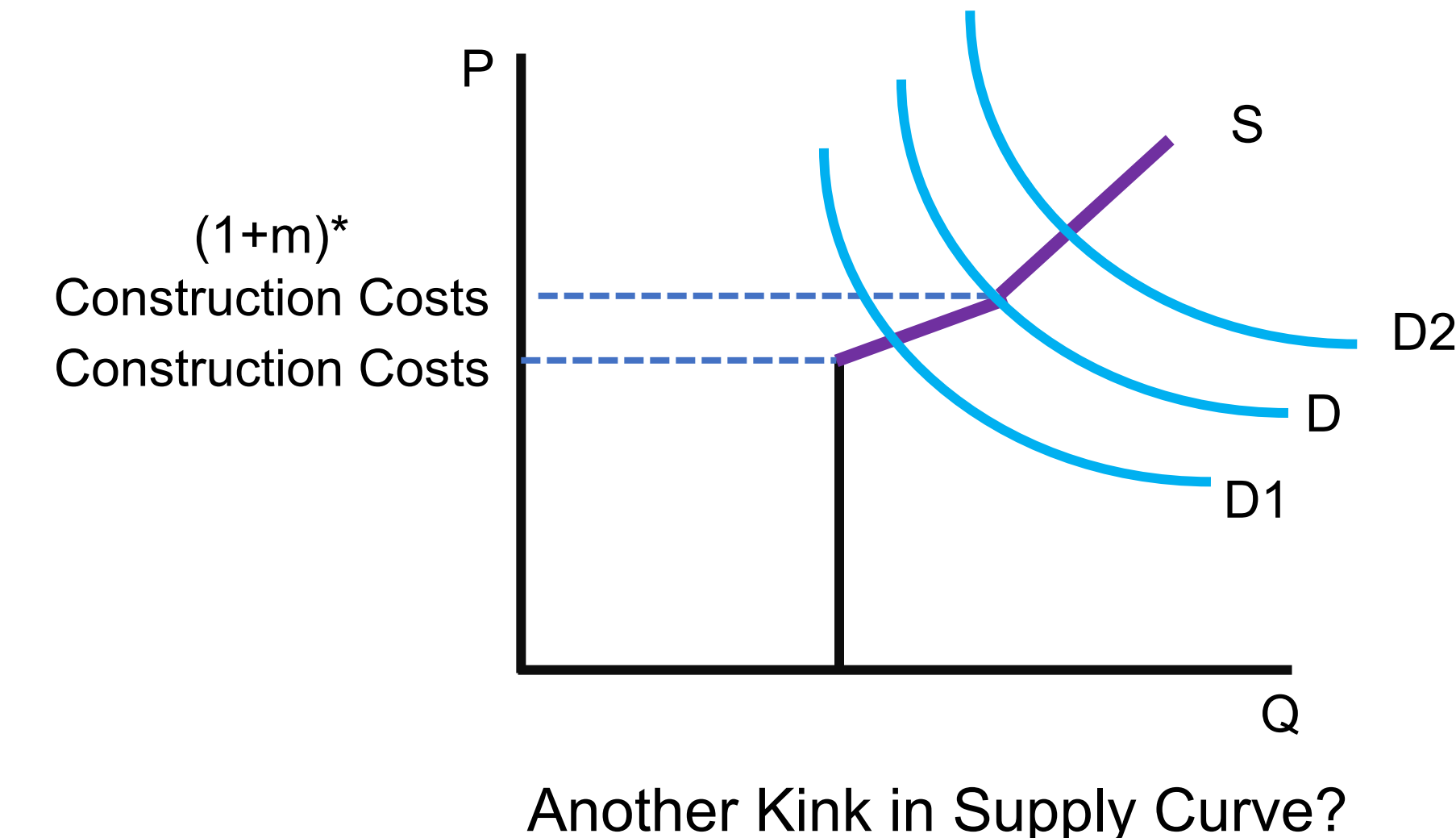
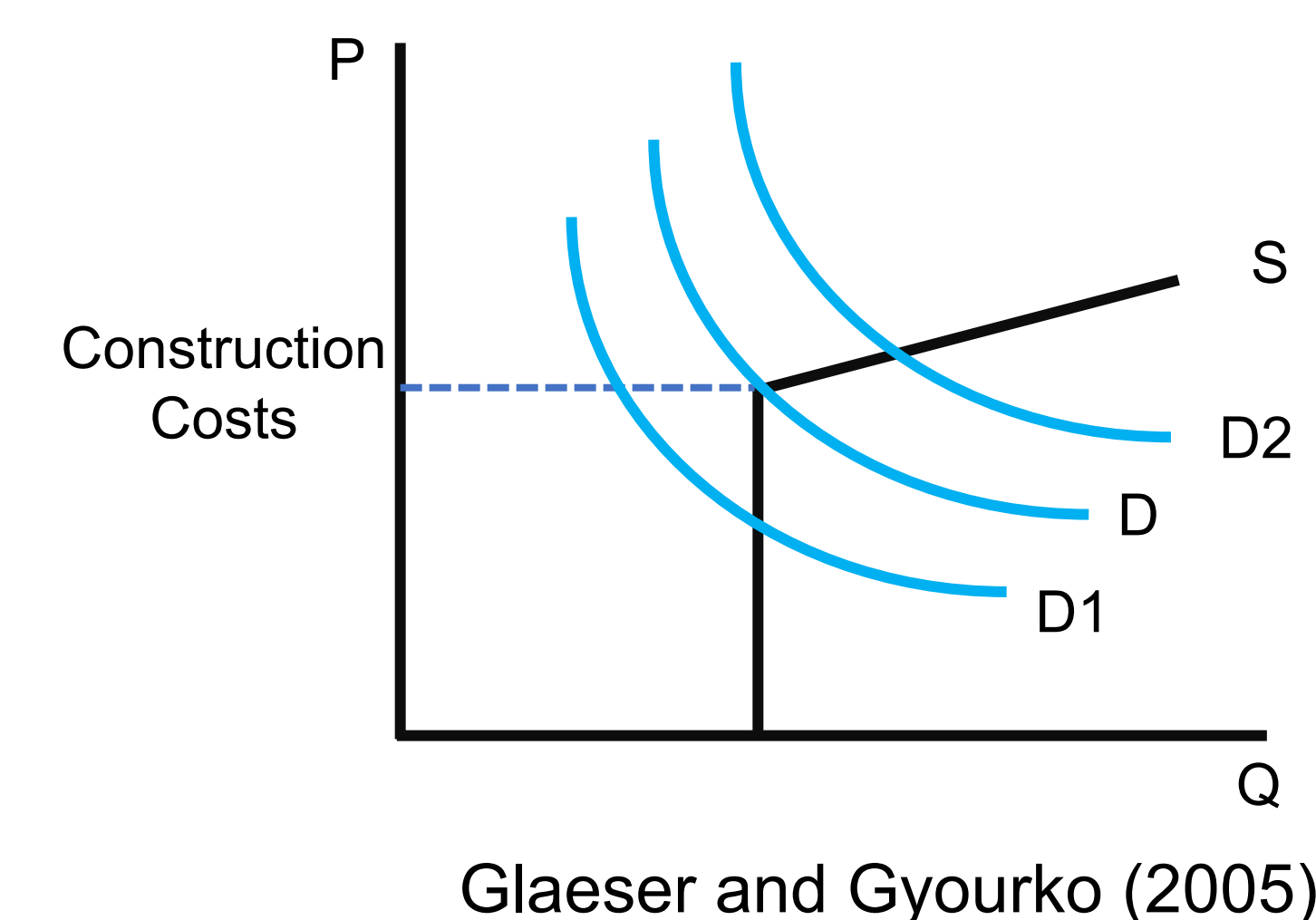
In California

Li, Shen, and Zhang (2020): "A one standard deviation increase in exposure to real estate capital inflows from China... raises the home price in an average ZIP code by 15%."

This paper: A one percentage point increase in Chinese cash transactions over all cash transactions in a ZIP code results in only about a 0.3% slower increase in house prices post-2017.

Why are there large asymmetric effects on house prices under positive and negative demand shocks of similar magnitude?

- Home sellers, especially builders, are sensitive to price changes
- Builders' profitability relies on current house prices
- It takes time to build new houses in response to positive demand shocks
- Construction halts or delays can occur quickly in response to negative demand shocks



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