

“Negative Capital Shock, Overseas Buyers, and Housing Market” by Qian Wang

Discussion by Christophe Spaenjers (CU Boulder)

Midwest Finance Association
21 March 2025

Big picture

- ▶ How does foreign capital/demand affect local housing markets?

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...
 - ▶ ...but quite some work already exists

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...
 - ▶ ...but quite some work already exists
- ▶ This paper different because it does not focus on “positive demand shocks”?

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...
 - ▶ ...but quite some work already exists
- ▶ This paper different because it does not focus on “positive demand shocks”?
 - ▶ Maybe, to some extent

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...
 - ▶ ...but quite some work already exists
- ▶ This paper different because it does not focus on “positive demand shocks”?
 - ▶ Maybe, to some extent
 - ▶ However, not obvious that we should expect substantial asymmetry—or that previous literature has only been concerned with *increases* in foreign demand

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...
 - ▶ ...but quite some work already exists
- ▶ This paper different because it does not focus on “positive demand shocks”?
 - ▶ Maybe, to some extent
 - ▶ However, not obvious that we should expect substantial asymmetry—or that previous literature has only been concerned with *increases* in foreign demand
- ▶ I believe main potential contribution lies elsewhere

Big picture

- ▶ How does foreign capital/demand affect local housing markets?
- ▶ Not an easy question to answer...
 - ▶ ...but quite some work already exists
- ▶ This paper different because it does not focus on “positive demand shocks”?
 - ▶ Maybe, to some extent
 - ▶ However, not obvious that we should expect substantial asymmetry—or that previous literature has only been concerned with *increases* in foreign demand
- ▶ I believe main potential contribution lies elsewhere
 - ▶ Namely, in estimating supply responses

The experiment

- ▶ The exogenous shock being exploited here is China's foreign exchange purchase quota management in 2017

The experiment

- ▶ The exogenous shock being exploited here is China's foreign exchange purchase quota management in 2017
 - ▶ Stricter enforcement, not change in rule

The experiment

- ▶ The exogenous shock being exploited here is China's foreign exchange purchase quota management in 2017
 - ▶ Stricter enforcement, not change in rule
- ▶ Shock “affects the behavior of Chinese cash buyers”

The experiment

- ▶ The exogenous shock being exploited here is China's foreign exchange purchase quota management in 2017
 - ▶ Stricter enforcement, not change in rule
- ▶ Shock “affects the behavior of Chinese cash buyers”
- ▶ True, but:
 1. Is a “Chinese cash buyer” necessarily a “non-resident Chinese buyer”?
 2. Are there “cash buyers” and “non-cash buyers”?

The experiment

Comment 1. Is a “Chinese cash buyer” necessarily a “non-resident Chinese buyer”?

- ▶ Use of cash transactions as “a proxy for foreign purchases”
 - ▶ Nationality vs. residence status? “Cash”, “foreign”, and “overseas” used interchangeably. Can be confusing and also makes it harder to understand what exactly is working assumption here

The experiment

Comment 1. Is a “Chinese cash buyer” necessarily a “non-resident Chinese buyer”?

- ▶ Use of cash transactions as “a proxy for foreign purchases”
 - ▶ Nationality vs. residence status? “Cash”, “foreign”, and “overseas” used interchangeably. Can be confusing and also makes it harder to understand what exactly is working assumption here
 - ▶ What is really meant: proxy for purchases by “non-immigrant visa holders”. What about non-visa holders? What is assumption about use of cash by Chinese permanent residents?

The experiment

Comment 1. Is a “Chinese cash buyer” necessarily a “non-resident Chinese buyer”?

- ▶ Use of cash transactions as “a proxy for foreign purchases”
 - ▶ Nationality vs. residence status? “Cash”, “foreign”, and “overseas” used interchangeably. Can be confusing and also makes it harder to understand what exactly is working assumption here
 - ▶ What is really meant: proxy for purchases by “non-immigrant visa holders”. What about non-visa holders? What is assumption about use of cash by Chinese permanent residents?
 - ▶ Transactions through LLCs?
- ▶ Almost 1 in 4 of all transactions in data set are labeled as cash transactions. Fraction substantially lower for purchases by Indian and Russian buyers

The experiment

Comment 1. Is a “Chinese cash buyer” necessarily a “non-resident Chinese buyer”?

- ▶ Use of cash transactions as “a proxy for foreign purchases”
 - ▶ Nationality vs. residence status? “Cash”, “foreign”, and “overseas” used interchangeably. Can be confusing and also makes it harder to understand what exactly is working assumption here
 - ▶ What is really meant: proxy for purchases by “non-immigrant visa holders”. What about non-visa holders? What is assumption about use of cash by Chinese permanent residents?
 - ▶ Transactions through LLCs?
- ▶ Almost 1 in 4 of all transactions in data set are labeled as cash transactions. Fraction substantially lower for purchases by Indian and Russian buyers
 - ▶ What does this tell us about usefulness of “cash” as proxy for residence status of buyer (conditional on foreign nationality)?

The experiment

Comment 2. Are there “cash buyers” and “non-cash buyers”?

- ▶ Maybe it affects payment method? Some evidence in Fig 2 that Chinese non-cash purchase volume goes up and that total buying volume hasn't gone down?

The experiment

Comment 2. Are there “cash buyers” and “non-cash buyers”?

- ▶ Maybe it affects payment method? Some evidence in Fig 2 that Chinese non-cash purchase volume goes up and that total buying volume hasn't gone down?
- ▶ Could part of the story here be that resident Chinese buyers were relying on cash held in China but are now switching to other payment methods? In which case this is not about “overseas” demand

The experiment

Comment 2. Are there “cash buyers” and “non-cash buyers”?

- ▶ Maybe it affects payment method? Some evidence in Fig 2 that Chinese non-cash purchase volume goes up and that total buying volume hasn't gone down?
- ▶ Could part of the story here be that resident Chinese buyers were relying on cash held in China but are now switching to other payment methods? In which case this is not about “overseas” demand
- ▶ Sure, cash transactions by Chinese go down but overall (overseas) Chinese demand? Strong assumption that there was no substitution to non-cash purchases

Identification

- ▶ Need for control group (in this case Indian and Russian buyers) is not obvious to me
 - ▶ For example, when looking at impact on cash transaction volume, why focus on relative volume of Chinese vs Indian rather than share of Chinese cash transactions in market overall?

Identification

- ▶ Need for control group (in this case Indian and Russian buyers) is not obvious to me
 - ▶ For example, when looking at impact on cash transaction volume, why focus on relative volume of Chinese vs Indian rather than share of Chinese cash transactions in market overall?
- ▶ Steady decline in Chinese cash transactions after 2017 but not a sharp drop

Identification

- ▶ Need for control group (in this case Indian and Russian buyers) is not obvious to me
 - ▶ For example, when looking at impact on cash transaction volume, why focus on relative volume of Chinese vs Indian rather than share of Chinese cash transactions in market overall?
- ▶ Steady decline in Chinese cash transactions after 2017 but not a sharp drop
- ▶ My main concern: identification comes from comparing housing market conditions post-2017 in areas with a lot of Chinese (cash) purchases in 2013 vs. those with few such purchases

Identification

- ▶ Need for control group (in this case Indian and Russian buyers) is not obvious to me
 - ▶ For example, when looking at impact on cash transaction volume, why focus on relative volume of Chinese vs Indian rather than share of Chinese cash transactions in market overall?
- ▶ Steady decline in Chinese cash transactions after 2017 but not a sharp drop
- ▶ My main concern: identification comes from comparing housing market conditions post-2017 in areas with a lot of Chinese (cash) purchases in 2013 vs. those with few such purchases
 - ▶ Chinese purchase activity in 2013 will not be randomly distributed
 - ▶ Correlated with certain characteristics that are also correlated with lower prices and volume post 2017?

Interpretation of findings

Price results

- ▶ “A one percentage point increase in Chinese cash transactions over total transactions in a ZIP code in 2013 results in 0.4% to 0.5% slower increase in the quarterly house price index at the ZIP code level post 2017”

Interpretation of findings

Price results

- ▶ “A one percentage point increase in Chinese cash transactions over total transactions in a ZIP code in 2013 results in 0.4% to 0.5% slower increase in the quarterly house price index at the ZIP code level post 2017”
 - ▶ But “one percentage point” is an enormous change given that given that Chinese cash transactions only represent about 0.2% of the market (in 2020–2021, based on Table 1)

Interpretation of findings

Price results

- ▶ “A one percentage point increase in Chinese cash transactions over total transactions in a ZIP code in 2013 results in 0.4% to 0.5% slower increase in the quarterly house price index at the ZIP code level post 2017”
 - ▶ But “one percentage point” is an enormous change given that given that Chinese cash transactions only represent about 0.2% of the market (in 2020–2021, based on Table 1)
- ▶ Is “slower increase” the right interpretation? Dependent variable is a logged house price index, so overall house price index will be 0.4% to 0.5% lower in years post 2017 if ratio of Chinese cash buyers is 1 p.p. higher in 2013?

Interpretation of findings

Price results

- ▶ “A one percentage point increase in Chinese cash transactions over total transactions in a ZIP code in 2013 results in 0.4% to 0.5% slower increase in the quarterly house price index at the ZIP code level post 2017”
 - ▶ But “one percentage point” is an enormous change given that Chinese cash transactions only represent about 0.2% of the market (in 2020–2021, based on Table 1)
- ▶ Is “slower increase” the right interpretation? Dependent variable is a logged house price index, so overall house price index will be 0.4% to 0.5% lower in years post 2017 if ratio of Chinese cash buyers is 1 p.p. higher in 2013?
 - ▶ Maybe repeat with first differences in price indexes + zip code fixed effects to see if growth rate changes post 2017 in affected zip codes?

Interpretation of findings

Housing supply results

- ▶ Estimated causal effect on quarterly transactions is very large (as the authors acknowledge)

Interpretation of findings

Housing supply results

- ▶ Estimated causal effect on quarterly transactions is very large (as the authors acknowledge)
- ▶ Another way of saying this is that the estimate of supply elasticity is very high

Interpretation of findings

Housing supply results

- ▶ Estimated causal effect on quarterly transactions is very large (as the authors acknowledge)
- ▶ Another way of saying this is that the estimate of supply elasticity is very high
- ▶ Interpretation favored in this paper: halting/holding supply is easier than expanding supply

Interpretation of findings

Housing supply results

- ▶ Estimated causal effect on quarterly transactions is very large (as the authors acknowledge)
- ▶ Another way of saying this is that the estimate of supply elasticity is very high
- ▶ Interpretation favored in this paper: halting/holding supply is easier than expanding supply
- ▶ Is idea here (at least partially) that some construction has been halted because of lower demand from overseas Chinese buyers?
 - ▶ Costly for builders to halt construction?
 - ▶ Given small effect on prices, and many other factors that impact prices, and noisy signals about prices in real time, is it realistic that sellers/builders would change behavior in response to shock?