Anonymous Capital Flows and U.S. Housing Markets

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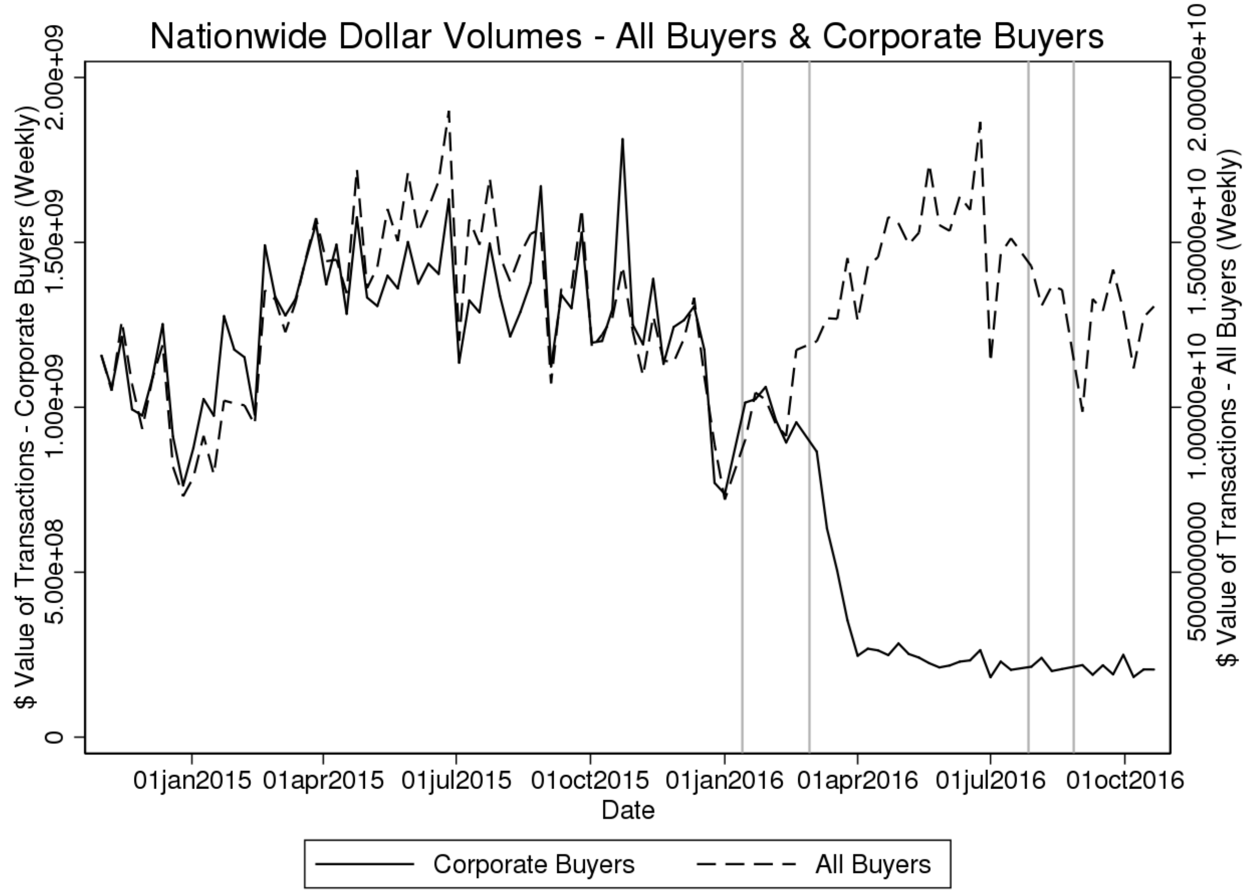
Motivation and Method

- Does anonymity-seeking capital affect housing prices?
- There has been a recent concern that foreign buyers push up house prices.
- The authors use Geographic Targeting Orders (GTOs) as an exogenous shift in the demand for luxury properties by cash buyers represented by shell companies.
- GTOs require U.S. title insurance companies to identify the natural persons behind shell companies used to pay “all cash” for high-end residential real estate in six major metropolitan areas.
- The locations include Manhattan and Miami-Dade (effective March 1, 2016) and some counties in California, Florida, New York, and Texas (August 28, 2016).

Comment: Is the value of anonymity significant?



The announcement is made in January 2016 but implemented in March 2016. Why is there no increase in the transaction activities before March by the cash purchasers? Maybe because there are alternative ways to take care of business or maybe because fraction of suspicious transactions is low (they switch to noncash purchase)?

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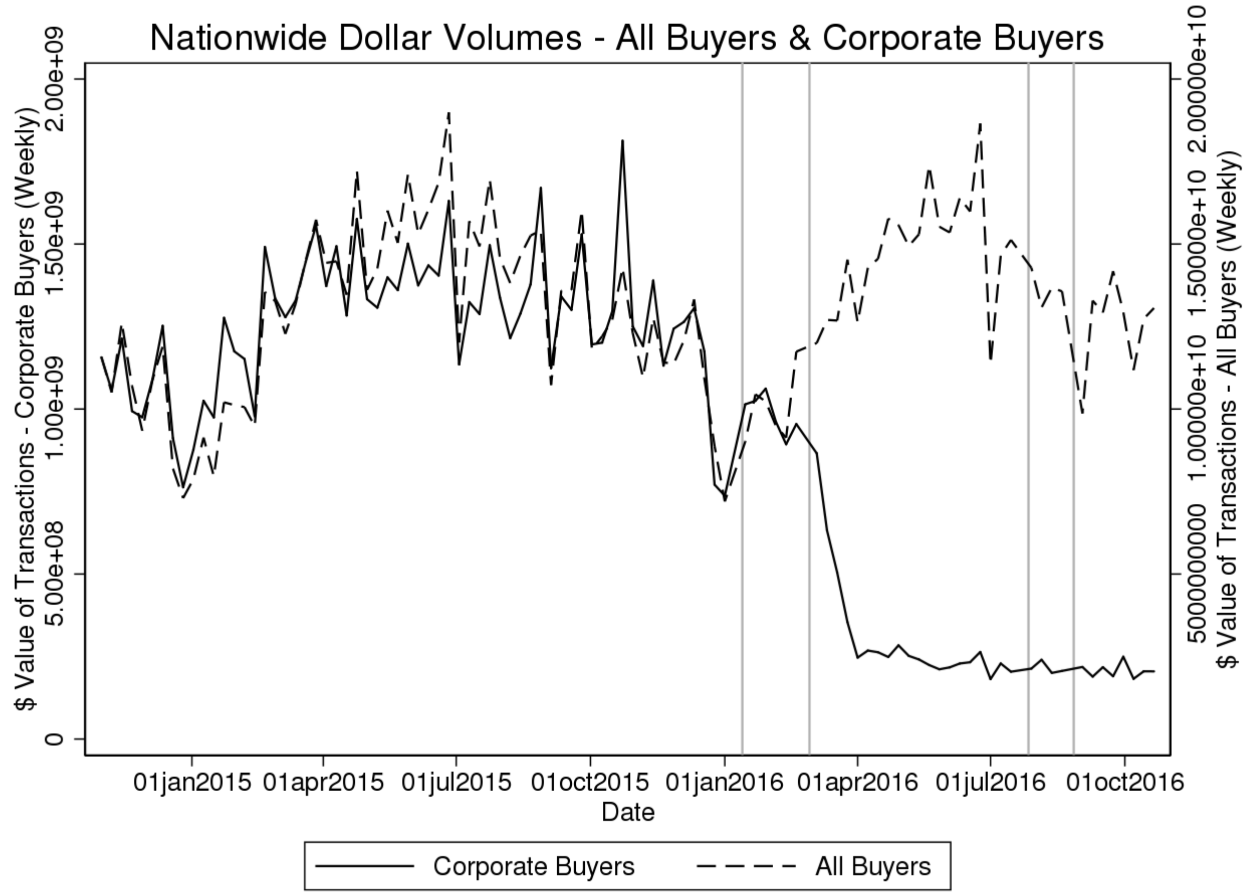

FINCEN: "about 30 percent of the transactions covered by the GTOs involve a beneficial owner or purchaser representative that is also the subject of a previous suspicious activity report." Why is the drop in cash purchases so large if only 30% is suspicious? Did the remaining (nonsuspicious) cash buyers simply opt for a mortgage?

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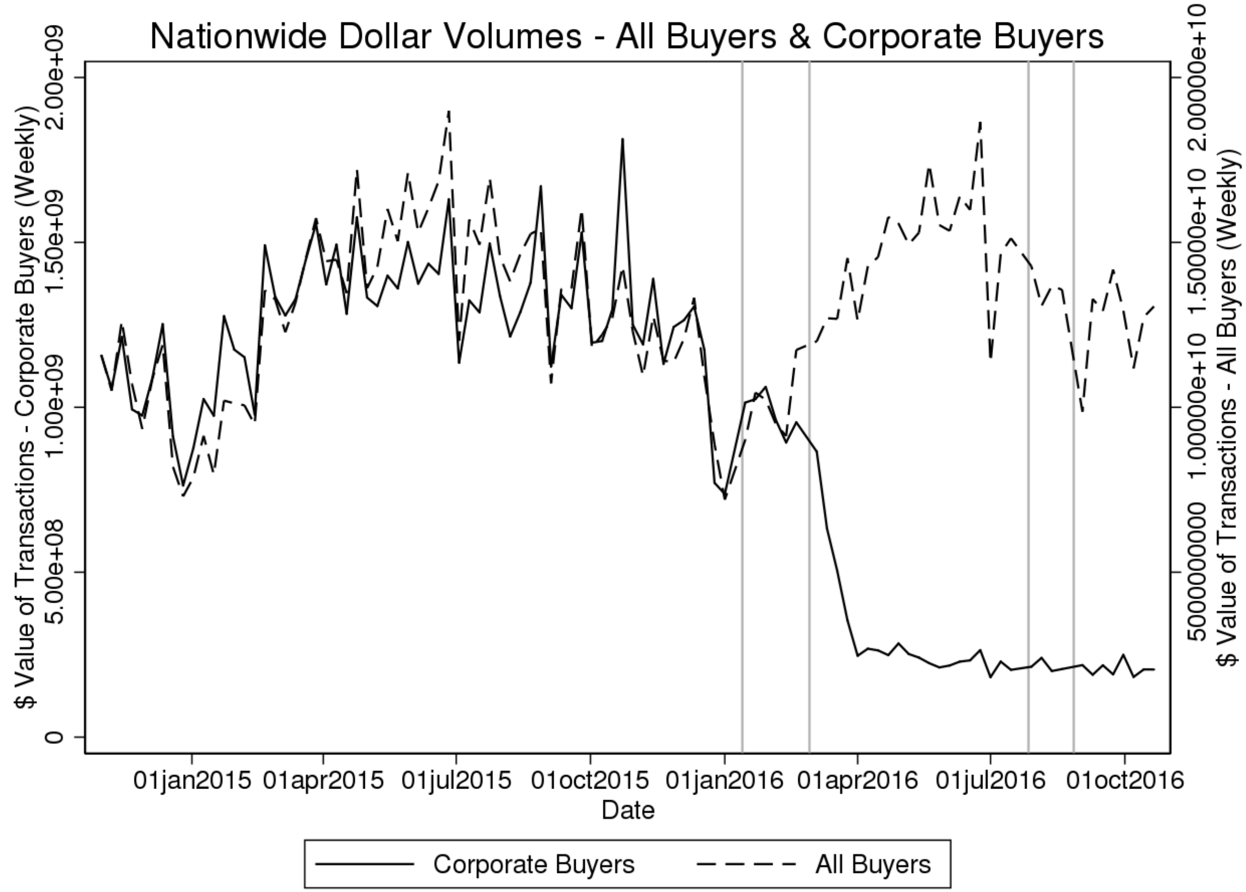

Cash transactions went from about 10% to about 2% of *total* volume. This pattern is probably more drastic for the GTO-eligible properties. But the effect on home prices is 3.7%. Isn't this a very low? This seems more consistent with a switch of cash-buyers to mortgage than the suspicious activities moving to different opportunities.

Comment: Hedonic Pricing

- Conditional on the previous comment, the empirical approach is solid.
- One concern: Hedonic pricing is tricky; for example, there is no time varying component, for example, due to macro-environment.
- Overall, coming up with a hypothetical price is very difficult. This is exactly the reason why criminals like these properties. “Luxury properties with unique characteristics may be particularly suitable for such transactions because it is difficult to determine their fair value based on comparable deals.”

Comment: Hedonic Pricing

- Try alternative ways for robustness.
- Report out-of-sample performance of the hedonic pricing model.
- Use Zillow/Redfin estimate.
- Use a matching algorithm with the neighboring counties.
- Use another measure that captures demand effects, e.g., time on the market before sale.
- Are properties that require TLC more likely to be sold?

Comment: Spillover Effects

- Spillover effects to other luxury real estate markets?
- Why did NY, CA, TX, FL chosen by GTOs?
- In 2017, Seattle, Dallas, Houston, Boston, D.C. top Miami and Bexar in number of million-dollar homes for sale.
- Why are these cities not chosen? Or did their house prices increase because of GTO?

Conclusion

- One-of-a-kind and stimulating paper.
- Looking forward to the updated version.