Tobin Tax Policy, Housing Speculation, and Property Market Dynamics

Sumit Agarwal, Kwong Wing Chau, Maggie Rong Hu, and Wayne Xinwei Wan

Discussant: Jing Li (SMU)

ABFER, 23 May 2022

Summary

This paper studies the impact of a Tobin property tax – the Special Stamp Duty (SSD) introduced in Hong Kong in 2010 – on curbing speculation and cooling the housing market.

- ▶ Flippers achieve significantly higher investment returns than non-flippers.
- ▶ SSD reduces short-term speculation (23.2% in 2009 to 0.9% in 2013).
    - ▶ Flippers defer sales, resulting in a bunching of urgent sales immediately after the lock-in period ends.
- ▶ Housing prices continue to rise (12.64% in the primary market and 15.76% in the secondary market).
    - ▶ SSD reduces market liquidity in the secondary market and also triggers unintended externality into the primary market.

General Comments

- ▶ Important question – long debate on the implications of the Tobin tax!
- ▶ Detailed housing transaction data matched with the timing of quasi-experiments
- ▶ Extensive set of behaviour responses examined!

1. On the Conceptual Framework

The paper motivates the focus on property flipping as a key factor driving up house prices, but what does the theory say? What is the role of the flippers? What kind of market inefficiencies that they create and that require policy interventions?

- ▶ The presence of flippers can be advantageous if mismatched and liquidity-constrained household can sell their old house quickly to flippers before buying a new house.
- ▶ If the property flippers are noisy uninformed traders, however, they may contribute to excessive price volatility (Tobin 1978, 1984; Stiglitz 1989).
- ▶ Therefore, the presence of uninformed speculators could help explain price exuberance during a housing boom (Chinco and Mayer 2016).

The key factor linking the presence of flippers to excessive house price appreciation is *the type of the flippers* (Bayer et al 2020).

2. On Reconciling with Existing Findings

Gao et al (2020) find that housing speculation leads to greater price appreciation during the housing boom in 2004-2006 and more severe economic downturns during the subsequent bust in 2007-2009.

Such findings are also in line with the evidence on the presence of uninformed speculators causing housing bubbles in Las Vegas and Pheonix, for example (Chinco and Mayer 2016).

However, this paper documents that removing house flippers in the Hong Kong housing market leads to price appreciations.

The focus on *the type of the flippers* helps to reconcile with existing contradicting findings as the flippers in Hong Kong seem to be well informed traders.

3. On the Identification Challenge

$$Return_{it} = \beta_1 Flip_{it}^s + \beta_2 Flip_{it}^s * SSD_{i,t_p} + X_{it}'\lambda + \gamma M_t + \varphi_i + \omega_t + \varepsilon_{it}. \quad \text{---(1)}$$

Key identification relies on the inter-temporal variation across flippers and non-flippers.

- ▶ Problematic as the definitions for cross-sectional units are affected by the SSD shock.
- ▶ Using pre-shock flippers alleviates the concern but these pre-shock flippers are subject to survival bias and they may also be replaced by new entrants.
- ▶ The identification essentially relies on difference in differences. Is the parallel trend assumption satisfied?
- ▶ The authors should state the identification assumption clearly and discuss the direction of bias if the assumption is violated under different scenarios.

4. On the Bunching Estimates

Purchase Date: Nov 20, 2010 - Oct 26, 2012
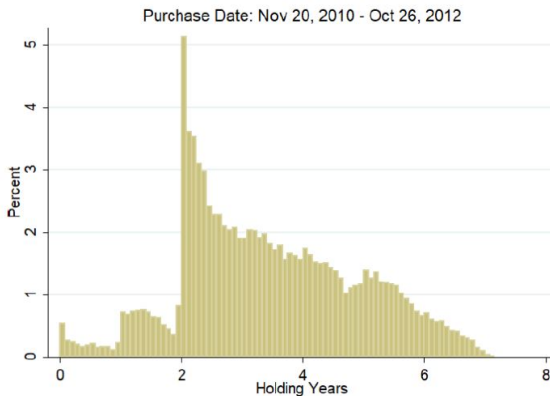
Clear evidence on urgent sales bunching immediately after the lock-in period ends.

▶ If the story is on reduced supply which leads to increased house price appreciation, the focus should be on the change in total sales volume (both sides of the bunch).

4. On the Bunching Estimates

The story then shares the flavor of the literature on the impact of minimum wage on total employment (Cengiz et al 2019).
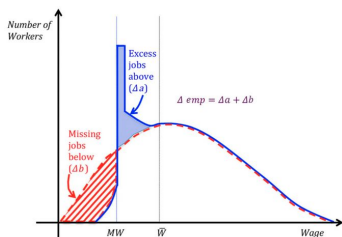

FIGURE I

The Impact of Minimum Wages on the Frequency Distribution of Wages
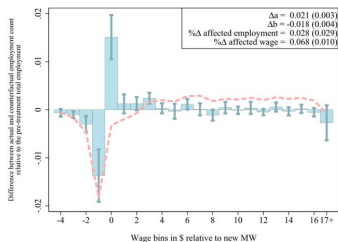
FIGURE II

Impact of Minimum Wages on the Wage Distribution

▶ A similar bunching estimates can be produced in this context to speak directly to the change in total sales volume or supply (listings).

5. On the Interpretation

Panel A. Impact of the SSD on All Flippers' Housing Returns and Transaction Prices

	(1) Y: Annual return	(2) Y: Log (Purchase price)	(3) Log (Resale price)
Flip * SSD	-0.0881***	0.0204*	-0.0186**
	(0.0068)	(0.0109)	(0.0084)
Flip	0.1272***	-0.0332***	0.0321***
	(0.0069)	(0.0068)	(0.0046)

" The result reveals that before the implementation of the SSD, flippers realize a 12.72% higher annual return than non-flippers when selling their properties. After SSD implementation in 2010, the flippers' annualized returns decrease by 8.81%. "

► Since the dependent variable is the annualized gross return in levels, the flippers are associated with 127 percentage points higher returns than the non-flippers. If non-flippers achieve an average annual return of 2%, the percentage increase for flippers is 536%. That's huge.