

Discussion of To Own or To Rent

- Empirical model exploits the imposition of a transaction tax in the city of Toronto.
 - Authors use a diff-in-diff strategy comparing transactions in Toronto to those outside of Toronto.
 - Boundary approach by only comparing observations close to city boundary.
 - Donut hole in time to avoid early sales intended to avoid the tax
- Finds robust evidence that number of leases rise, prices to rent ratio falls, and sales shift from occupant buyers to buyers intending to rent.
- Also find lower mobility and longer time on market

Comments on Empirical Work

- Unclear fixed effect structure: Need more details on model.
 - What is a community and how is it defined?
 - How are post-LTT and City dummies even identified?
 - How are the various trend controls defined?
 - What cross-sectional fixed effects define the event study comparisons and have the authors clustered standard errors at that level?
- More standard examination of parameter stability.
 - Estimate clean identification strategy with no controls and then demonstrate stability as controls are added.
 - Estimate model with reasonable bandwidth (5km) then show effects of narrowing bandwidth changing nothing else about the model.
- Falsification tests or event study analyses
 - Does data exhibit parallel trends or have non-parallel trends been differenced away

Theoretical Model of Search and Tenure

- Two markets: purchased housing and rental housing.
 - Supply side in purchase housing market from owner-occupants moving or investors selling.
 - Demand side is investors buying and households searching in the owner-occupied market.
 - Supply side in rental housing is the stock of properties own by investors.
 - Demand side is households who choose to search in the rental market.
- Two side search with likelihood of a viewing depending upon ratio of supply to demand
- Sales and moves are both driven by exogenous shocks to match quality.

Questions and Comments on Model

- Key conclusion that proportional tax skews division in favor of the buyer.
 - Transaction taxes usually very small proportions 1 or 2% so even if substantial lump sum level effects on owners the tax wedge should be very small.
 - Can a 1-2% tax wedge create this large a shift towards rental property?
- What might drive the shift?
 - All owners will need a larger shock to match quality to sell.
 - Perhaps, calibration consistent with longer holding periods for owner so effects of tax asymmetric due to parameter differences.
- Model Lacks Heterogeneity in mobility.
 - Transaction tax is a tax on mobility of either owner-occupants or capital.
 - Mobility differences are a huge driver in the own/rent decisions.
 - Prefer model w/ boundary individual whose mobility level implies indifference.

Welfare Analysis

- Paper concludes that there strikingly large welfare losses from the tax.
 - Deadweight loss is 79% of revenue.
 - Distortion in the own-rent decision represents 40% of the loss.
 - Rest of the loss is mostly within the owner market due to owners tolerating worse matches.
- Comments and Questions
 - Discussion of credit costs in calibration confusing since not mentioned in buyer problem.
 - Not sure why credit costs are key. Would seem that mobility rates are key since that drives match quality.
 - Assumes that the model without transaction costs is efficient:
 - Tax subsidies for owner occupied housing.
 - Which types of search models yield efficient outcomes.