

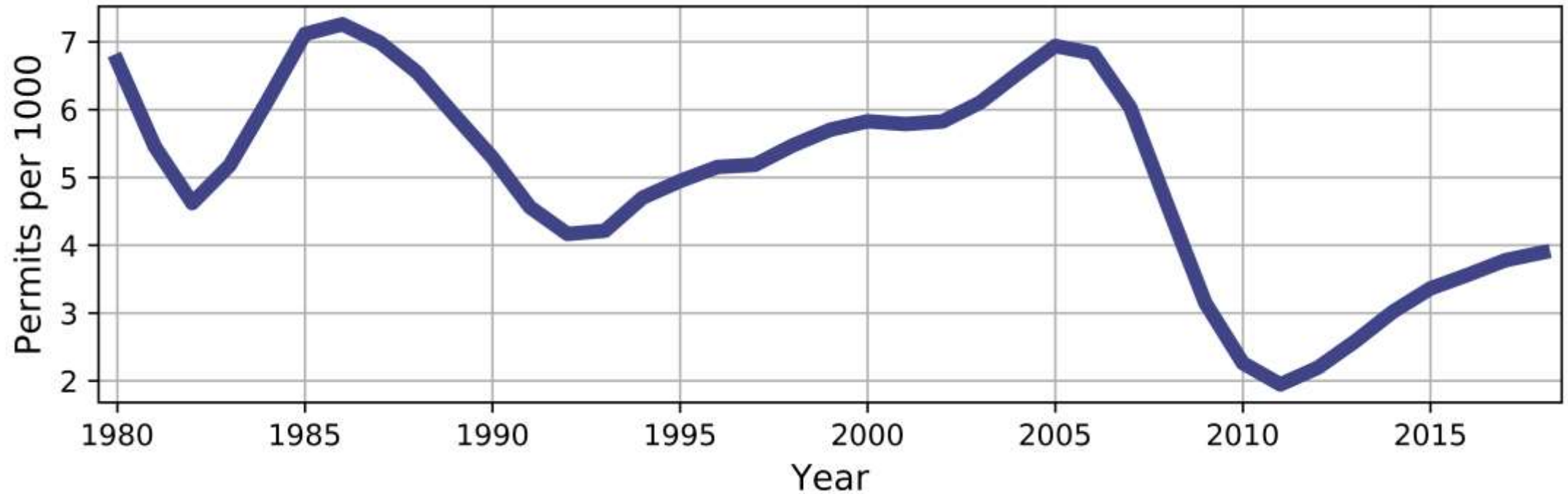
Market concentration and the production of new housing

JACOB COSMAN AND LUIS QUINTERO

NATIONAL HOUSING CONFERENCE

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New housing construction has slowed



Bad for homeownership, wealth distribution, moving to employment – affects macroeconomy

Why is this happening?

1. Scarcity of buildable land

- Cities near mountains and shorelines can't easily grow
- High quality of life and currently successful industries

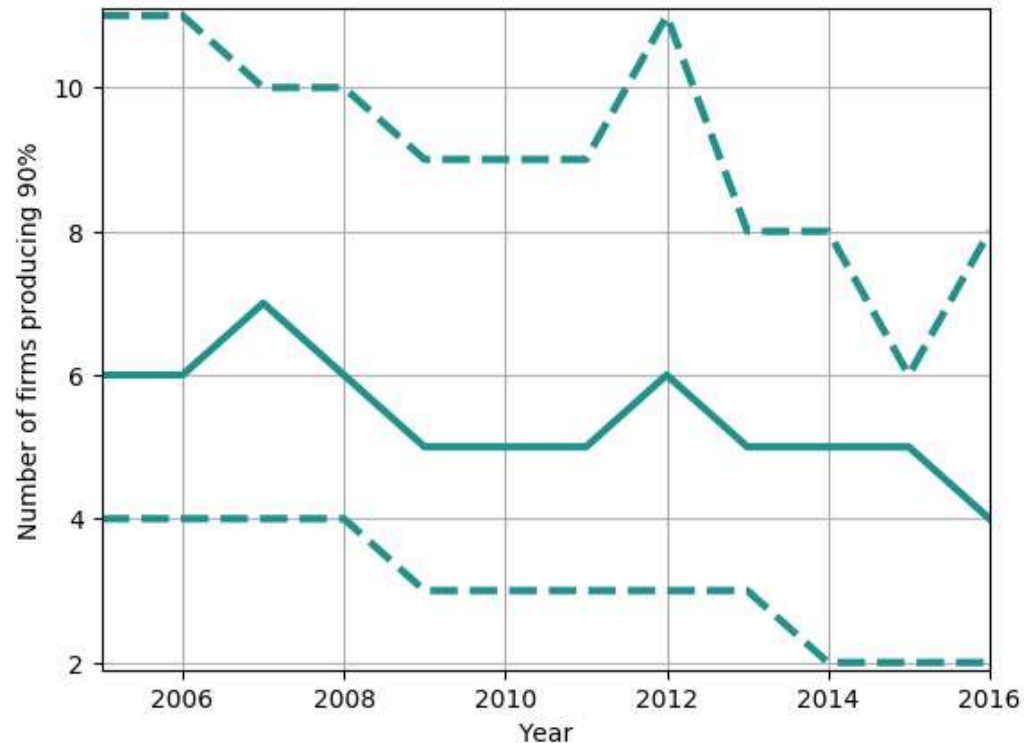
2. Regulatory stringency

- Local land-use regulation makes it hard to add new housing
- Particularly a problem in fastest-growing cities

3. Change in market structure

- Production of housing concentrated among a few firms
- Relatively new and not well-studied

Concentration in housing production



Production concentrated post-recession:

1. Wave of bankruptcies during recession
2. Liquidity to largest builders from stimulus
3. Ongoing wave of mergers

Economies of scale preserve concentration

Impacts of concentration on market

1. Fewer units built

- Monopoly power means building fewer units and charging more

2. Less supply in pipeline

- Less fear of preemption means less rush to build

3. Higher price volatility

- Monopolist can take advantage of demand spikes to raise prices

Quantifying the national impact

How much difference in production in 2006 vs 2015 from concentration?

Data available for subsample of cities in northeastern US – need to calibrate

	1st Q	Median	3rd Q
Δ Value of housing built	-21.5%	-20.0%	-12.8%
Δ Number of units built	-15.8%	-14.7%	-9.3%

(Cosman and Quintero 2018)

20% reduction in value of housing approximately **\$105 billion** in annual supply

Is this happening in Canada too?



Mattamy Homes to buy Monarch Corp. in \$330-million deal

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Canadian home builder expands its Houston footprint to Austin and San Antonio.

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October 18, 2018



BROOKFIELD HOMES MERGES WITH CANADA'S CARMA DEVELOPERS

This combination would form North America's sixth-largest builder/developer in assets.

Currently most merger activity is cross-border

Large condo developers probably have substantial market power in cities

Not enough data to track market competition

Conclusion and further work

Understanding homebuilders' incentives matters for housing dynamics

Market power means fewer units and more price volatility

Channel for local and national policymakers to change housing markets

Thank you for the opportunity to participate in this discussion