

Coping with Financial Frictions: Pricing Decisions of National Homebuilders *

Seohee Kim[†]

Duke University

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Abstract

Despite being traditionally fragmented, the US homebuilding sector has experienced a significant expansion of national builders over the past two decades. Using the universe of housing transaction data from the second half of the housing busts from 2009 to 2012, I examine how financial frictions – in combination with localized economic shocks – have affected the national single-family homebuilders’ pricing decisions in the local housing markets. Using variation in the local-level Zillow Home Value Index changes during the Great Recession, I show that national homebuilders who experience a decrease in the value of the sale in one area lower the sales price in another area. To explain this result, I design a model of the new housing market equilibrium, wherein the national builders set prices in each market to offload their existing investments and increase cash flow. I recover novel estimates of unsold inventory values in each market and convex external financing costs. Estimates from the model suggest that financial frictions decreased profit margins for the average public builder by 20%. Counterfactuals indicate that builders operating across diverse markets are better protected against local housing shocks, underscoring the incentives for their geographical expansion.

JEL Classification: R3, D4, G3

Keywords: Housing Supply, Spatial Spillover, Price Competition, Corporate Finance

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[†]Ph.D. Candidate at Duke University, Department of Economics: seohee.kim@duke.edu