Buying First or Selling First in Housing Markets*

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Abstract

Housing transactions by owner-occupiers take two steps, a purchase of a new property and sale of the old housing unit. These two decisions are not independent, and their sequence may depend on the state of the housing market. This paper shows how the transaction sequence decision of owner-occupiers depends on, and in turn, affects housing market conditions in an equilibrium search-and-matching model of the housing market. We show that home-owners prefer to buy first whenever there are more buyers than sellers in the market. This behavior leads to multiple steady state equilibria and to self-fulfilling fluctuations in prices and time-on-market. Equilibrium switches creates large fluctuations in the housing market, which are broadly consistent with stylized facts on the housing cycle.

Keywords: housing market, search frictions, order of transactions, strategic complementarity self-fulfilling fluctuations

JEL Codes: R21, R31

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