

Dynamic Competition of Real Estate Developers in Hong Kong: Lesson on Counter-cycle Policy

Abstract: Cyclical, or counter-cyclical, policy tends to be regarded as less disruptive to the market than universal/acyclical policy, but it is less certain when dynamic competition is involved. I study the impact of counter-cycle policy by structurally estimating the dynamic competition of the Hong Kong real estate primary market, in comparison with acyclical policy. Although empirical analysis can now be performed for dynamic competition thanks to development in literature, this real estate industry with dozens of firms, and other industries with many firms, remain challenging. With the help of Oblivious Equilibrium (OE), the underlying costs are estimated. Utilizing an extension of OE that accommodates seasonality, I can evaluate how acyclical and counter-cycle counterfactual policy affect the competition and market outcome differently. The analysis shows that counter-cycle policy actually introduces an impact bigger than acyclical policy in this market. This calls for caution against a common perception that counter-cycle measures necessarily cause less distortion than a full-scale acyclical measure.