# The most wonderful time of the year? Thin markets, house price seasonality, and the December discount

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Discussion by:

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# OVERVIEW

- The search model in this paper predicts that a high number of buyers increases the probability of a "successful" and therefore higher price match.
- Housing markets in December are thinly traded and also exhibit negative seasonality.
- The paper argues the December discount is causally due to the lack of buyers and not due to seller stress.

# REACTIONS

- What I like:
  - The theoretical model (an adaptation of Nenov, Roed Larson, and Sommervoll, 2016) is quite useful and intuitive
  - Very informative dataset, including advertisements, transactions, auctions
  - Very creative estimation strategies and hypothesis tests
  - I especially like the granular treatment (daily) leading up to December

# REACTIONS

- I have two issues with the paper in its current state (caveat that the author clearly states work is preliminary!)
  - Conceptual framework
    - Single period
    - Lack of seller entry
  - Empirics
    - While the methods are neat, creative, and fairly new, that is also a drawback—conventional tests and methods exist.

# REACTIONS

- Key issue – endogenous sorting into particular months
  - Currently bidders arrive stochastically.
  - This may be true *within* a period.
  - But…the arrival of buyers is periodic (seasonal) and is presumably related to exogenous search costs (weather, holidays) and liquidity (lowest in December?) (Yavas, 1992; Anglin, 1997; others)
- Sellers should anticipate buyer search behavior and choose to list when search costs are low (spring/summer)

# REACTIONS

- Sellers who choose to sell in December do so knowing the market is thin—why do they do it??
- It seems December sellers must be time-sensitive: buy/sell, inheritance, tax treatment
- Implication→ match quality may be low (small surplus), but sellers are also in an inferior bargaining position, allowing buyers to extract greater price concessions conditional on a match (Novy-Marx, 2009; Carrillo, 2012; Carrillo and Larson, 2015)

# REACTIONS

- Empirical issues:
  - If sorting is endogenous, then greater attention needs to be paid to identification.
  - Ask price and TOM are likely endogenous. If you want to sell quicker, list lower.
  - At least in the U.S. appraisals exhibit clear bias towards the price—probably can't be used as an instrument, but you may be able to tease something out.

# FINAL THOUGHTS

– I was left wondering why not just start with a conventional repeat-sales house price index (differenced transactions and differenced dummies along with price level parameters) then measure difference in December values vs others?
– Then attempt to find an IV that affects buyer search costs that is 1) exogenous, and 2) difficult to anticipate, thereby affecting buyer search but not seller listing behavior.
– Time series methods?

# FINAL THOUGHTS

- This is a good topic—the literature has not paid enough attention to the different prices people pay for identical homes
- Causality is VERY hard to establish due to endogenous sorting
- I look forward to your future work in this space!