Discussion of

THE IMPACT OF COMMERCIAL REAL ESTATE REGULATIONS ON U.S. OUTPUT

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Overview

- This is a very ambitious paper that tackles an important problem
- I am sympathetic to the agenda, albeit the bigger problems are in residential real estate, not in commercial real estate. Why do they focus only on commercial?
- Nevertheless, I have to play the role of the discussant
- I am neither a housing expert nor a macroeconomist.
- Erik Hurst is both and prepared a very interesting and detailed discussion on the subtleties of the model
- So, I let him discuss those
- I will focus on
    - An outsider's view of the methodology
    - A political economy view
    - Some quibbles with the model
- Before then, however, I need a cultural reference

The Procrustean Bed

- **Procrustes: Greek Mythology**
  - Rogue smith and bandit
  - Hostel with one-size-fits-all bed
  - Guests too small: stretch them to fit
  - Guests too large: lop off the offending parts

The Right Metaphor

- I feel that structural models are Procrustean beds
- To be fair, every model has a Procrustean element, but not every model tried to make quantitative predictions after having stretched or chopped the data
- The old joke about why computer rooms were in the basements

… so you cannot hear when researchers torture the data

- Unfortunately, here you can hear the sound loud and clear
- All frictions are interpreted as the effect of regulation
- It reminds me of the model of financial constraints
- Of course, the regulation effect is huge

What Else Could be Going On?

1. Financial constraints
2. Time to build
3. Heterogeneity in the production function
4. Pollution concentration
5. Congestion for suppliers
6. Differences in production costs
    - Midland, Texas, is pretty close to the border, how do illegal immigrants affect production cost?

Political Economy

1. Stiglerian view: regulation as a barrier to entry vs. Pigouvian view: regulation to fix externalities
2. The Stiglerian view requires that the producers to be separate from the consumers
    - Likely to be true for office buildings
    - But not for manufacturing plants, agricultural establishments, parking lots, etc.
    - If Exxon owns a refinery in Louisiana is both the "developer" and the "renter", thus it does not have any interest in increasing prices on the real estate
    - The same is true if Mondavi owns a winery in California
        - Good placebo test
3. Even when they might be separate, is it likely that the office users are more politically weak than the office builders?
    - Certainly not true for companies like Amazon, Microsoft, etc,
        - Good placebo test

Political Economy - 2

- In this particular case, I am much more sympathetic to a Pigouvian view.
- Have you ever tried to live next to a disco?
- Or next to a major parking lot?
- Not to mention, in a very highly polluted place, like Cancer Alley in Louisiana?
- What evidence does the model have that these are not important factors?
- Lifting restrictions and increasing by 18% this facilities we can generate a very large welfare loss
- The paper simply ignore it

Some Quibbles With the Model

1. The work-for-home counterfactual is misleading
    - The baseline is set at the new equilibrium level, no surprise that the effect is still large
    - Yet, if we were to lift regulation today, when we are not in the new equilibrium, the effect could be nil since there is an oversupply of office buildings

2. I am surprised by the low level of migration
    - How do you use the 18% more office buildings if
        - Locals work less
        - Not much migration?
    - Possibly the production function is wrong, it should be Leontief, not Cobb-Douglass

3. Office buildings are very different from everything else, but office buildings are only 18% of commercial real estate.

Conclusions

- Calculating the shadow costs of regulation is a very worthwhile exercise, which can eventually impact regulation itself.
- This paper needs to be commended for this effort
- However, for my taste, it is too fast to jump to conclusions
- My suggestion would be to deepen the analysis of t as an empirical measure of regulation distortions
- It is very promising, but it needs to be validated more
- Only after that one can attempt the general equilibrium analysis