Title: Presale, Credit Constraints and Housing Supply

Abstract:

Homebuilders finance projects using bank loans and presales, making presale timing and pricing relevant to credit frictions, housing supply, and affordability. Data from Israel in the 2010s indicates a 7.7% average cost premium for presale funding relative to bank loans, indicating credit frictions. A new model captures the key tradeoffs faced by builders and buyers. Calibration shows that relaxing credit frictions increases housing supply and welfare but also raises standard price indexes that ignore sale timing. This occurs because builders substitute away from presales toward bank borrowing, reducing the share of early (typically lower-priced) transactions in observed sales.