Frictions in the corporate real-estate market, rms’ relocation and employment

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Abstract

The size of the premises in which rms operate clearly imposes an upper limit to their business volume and their employment level and may be a potential hindrance to the growth of dynamic rms. In this paper, we develop a partial equilibrium model in which a representative rm makes a decision on relocation and employment level considering the rm-level productivity path and the costs associated to relocation. We predict that relocation costs primarily hinder the employment growth of rms affected by an increase in productivity. Confronting these results using French rm-level data over the period 1994-2013, and covering all sectors, we nd that, (i) local relocations have sizable eects on employment growth of both growing and declining rms; (ii) higher relocation costs lower rms’ propensity to move; (iii) higher relocation costs constrain job creation of the most dynamic rms. We nd that the highlighted mechanism has substantial macroeconomic eect: our preferred estimates suggest that a reduction of the relocation costs, through the removal of one of the identied tax friction, increases the rms’ propensity to move by 11% and raises the yearly employment growth rate of the 10% fastest growing rms by 4%.

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