

**Comments on
Real Estate Markets:
Recent developments, outlook, financial stability risks**

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Comments

- Excellent work by ECB authors
 - Highlights clear risks in commercial real estate (CRE)
 - More sanguine about risks in residential real estate (RRE)
- My comments pertain to RRE
 - 1) Analytic toolkit to assess vulnerabilities is improving but challenges remain
 - 2) Effectiveness of macroprudential tools needs to be kept in constant review
 - Should monetary policy help in the boom phase?
 - 3) More attention needed to housing supply and distributional issues (“affordability”)

Analytic toolkit to assess vulnerabilities

- Typical ‘macro’ approach
 - model house price growth in terms of fundamentals
 - residual growth can be a sign of “overheating”
- Difficult to establish relationships between house price growth and fundamentals
 - Panel results often ‘look good’ but country-by-country estimation challenging (Igan and Loungani, 2012)
 - Shifts in relationships and nonlinearities
 - e.g. non-linearities in relationships between interest rates and house prices highlighted by ECB authors
 - Difficult to measure supply factors driving house prices
 - Duca, Muellbauer and Murphy (JEL 2021) pointed out limited success of this approach in pinpointing vulnerabilities
- Useful that ECB supplements ‘macro’ approach with ‘micro’ data
 - Using loan-level data to conduct sensitivity analysis of household resilience
 - Monitoring lending standards in new loans

Effectiveness of macroprudential tools

- Macroprudential tools have become the ‘first line of defense’ against “overheating” RRE markets
- Assessment of effectiveness of these tools has been growing
- But still: tools seem to take ‘some of the froth off for a bit of time’
 - “significant challenges of limiting the pace of accumulation of imbalances” (ECB)
- Should monetary policy be helping out during the boom phase?
 - “there are strong complementarities between monetary and macroprudential policies, such that where both monetary and macroprudential policies are used actively, overall policy effectiveness is enhanced relative to a world in which any one policy acts without the support of the other” (Nier and Kang, BIS Paper No. 86, 2016).

Housing Supply and Distributional Issues

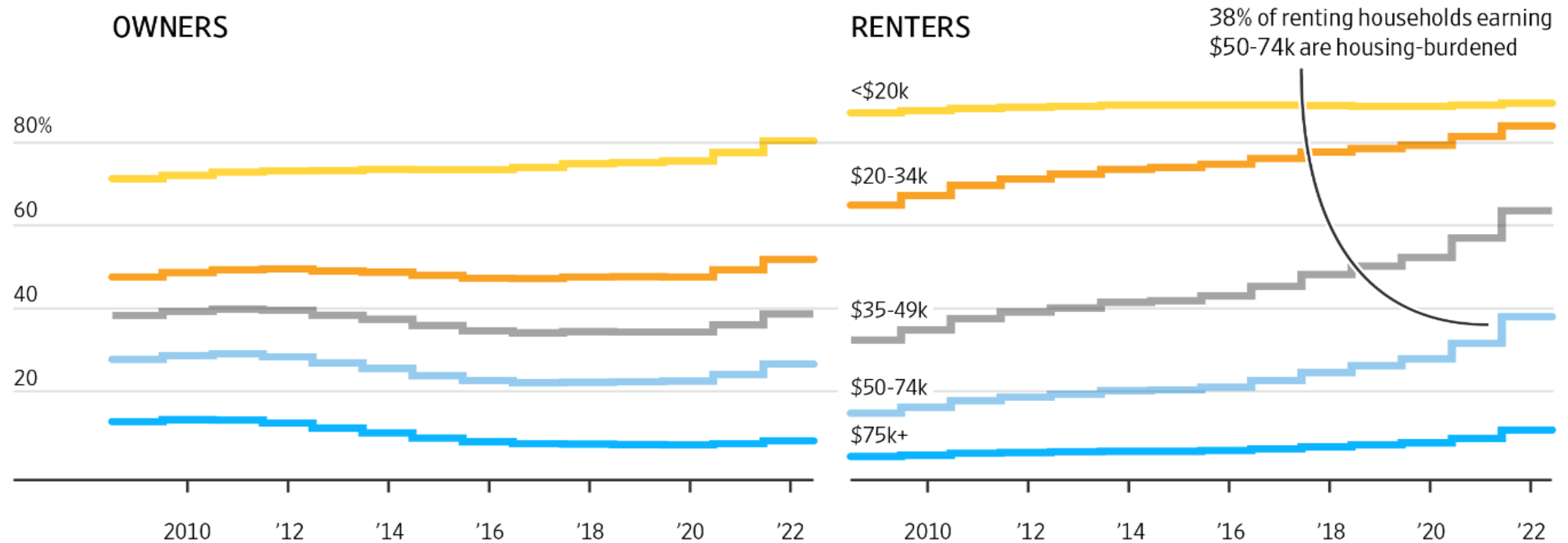
- Are we trying to fix a supply issue with demand management tools?
- Several studies point to importance of supply constraints in driving house price appreciation
 - e.g. IMF report on Canada, 2019 (“To Tackle Housing Affordability in Canada, Build More Houses”)
- Expanding supply can help with distributional issues
 - “their beneficial impact on financial stability apart, borrower-based [macroprudential] measures may also have ‘undesirable’ distributional effects given that they may limit access by younger or poorer households” (ECB authors)

Housing affordability in US, by income level

(Source: Aziz Sunderji, [Home Economics](#))

An increasing fraction of households at each income level are housing-burdened

Percentage of households within each income band who are spending more than 30% of their gross income on housing



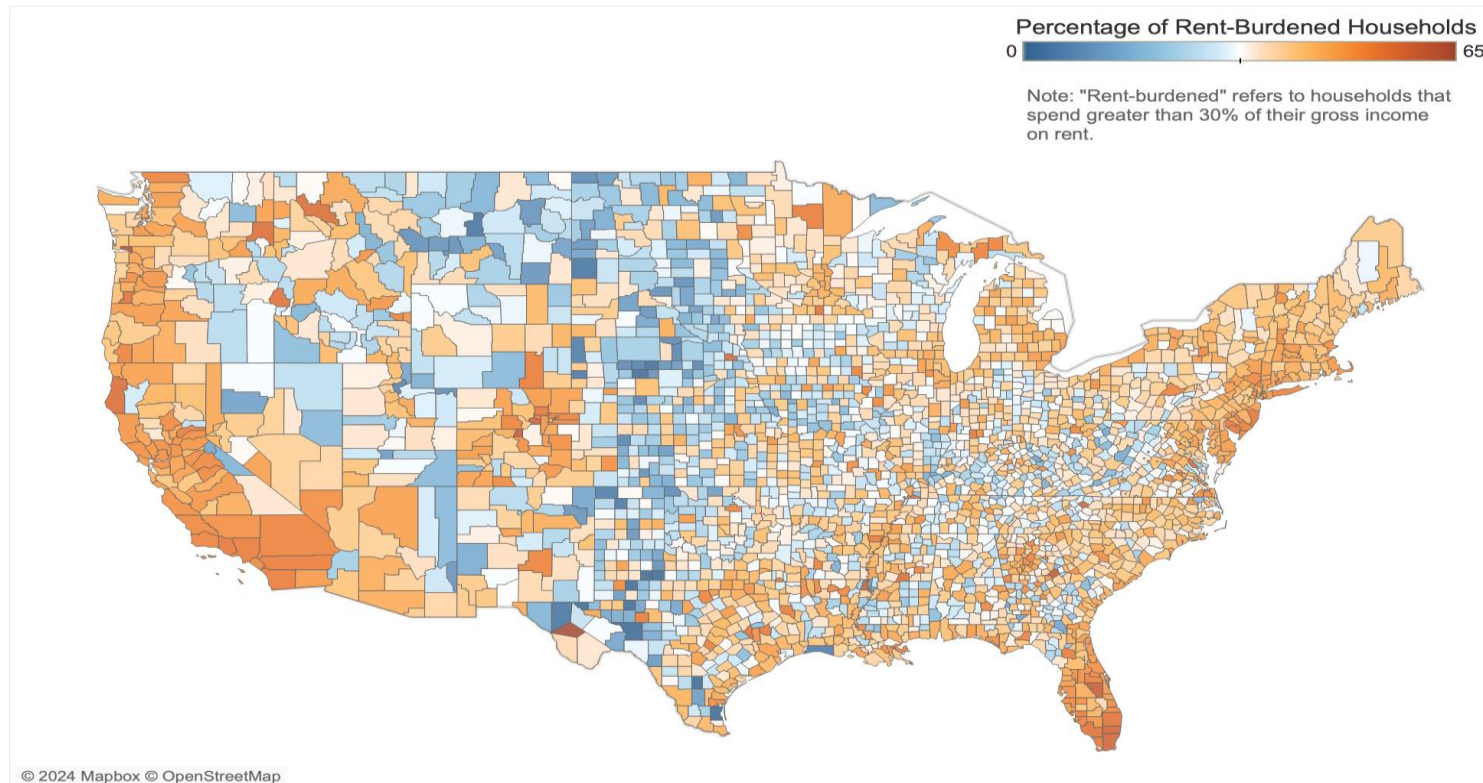
Source: Census Bureau, American Community Surveys, 2006-10 through 2018-22, via NHGIS

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Housing affordability in US, by county

(Source: Aziz Sunderji, [Home Economics](#))

RENT AFFORDABILITY BY COUNTY 5 YEAR ESTIMATES, 2018-2022



Source: U.S. Census Bureau, American Community Survey (5-year estimates, 2018-2022)

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