# Monetary Policy and Real Estate Markets

Anne Reimat*†[1], Ines Trojette[2], and Abdelkader Aguir[3]

[1]Laboratoire ESPI2R Research in Real Estate [Montpellier] (ESPI2R) – Ecole Supérieure des Professions Immobilières – 450 rue Baden Powell 34000 Montpellier, France
[2]Laboratoire ESPI2R Research in Real Estate [Paris] (ESPI2R) – Ecole Supérieure des Professions Immobilières – Campus de Paris 12 rue Belgrand 92300 Levallois-Perre, France
[3]Laboratoire ESPI2R Research in Real Estate [Lyon] (ESPI2R) – Ecole Supérieure des Professions Immobilières – 95 rue Marietton 69009 Lyon, France

**Abstract**

The recent slowdown or decline in real estate transactions and prices following the tightening of monetary policy since the summer of 2022 underlines the connections between monetary policy and real estate markets.
The "housing channel" of monetary policy (Battistini et al. 2022) refers to the impact of monetary policy on the real estate market and how, in return, it affects the overall economic activity. The housing channel operates through various mechanisms, including the credit channel (which determines easier or tighter credit access for households and investors based on interest rate levels), the collateral channel (which encompasses wealth effects from changes in house prices, and opportunities for mortgage equity withdrawal), and the cash-flow or balance sheet channel (*i.e.* increase in interest rate increase mortgage repayments, reducing households revenues) (Mishkin, 2007, Di Casola, 2023).

However, the manifestation of these connections varies depending on the specific characteristics of national real estate markets (such as the share of tenants/owners, the share of homeowners with mortgages/without mortgages) and national mortgages markets (share of fixed-rate mortgages/adjustable-rate mortgages, real estate debt as a % of GDP, loan-to-value ratios)(Corsetti et al. 2022) .

The pass-through of monetary policy to mortgage rates and newly originated mortgage contracts significantly influences real estate markets transactions and prices. A low interest rate environment typically stimulates investment in real estate, potentially inflating property prices or fostering housing bubbles (Bernanke, 2010).

Monetary policy also exerts an impact on the rental market. A restrictive monetary policy (higher interest rates) leads to rent increases (Dias, Duarte, 2019) and affects housing tenure decisions (i.e., renting versus owning) (Koeninger et al. 2022).

However, macroprudential policies, such as bank capital requirements, and regulatory measures (subsidized loans or tax reliefs on mortgage interests, for instance) can counterbalance or mitigate the effects of monetary policies on real estate markets.

*Speaker
†Corresponding author: a.reimat@groupe-espi.fr

Given that real estate markets constitute a substantial share of GDP and play a crucial role in household welfare and wealth, understanding the interplay between monetary policy and real estate markets, and how real estate markets react to changes in monetary policy, is crucial.

The papers presented in this thematic session will explore some of the many facets of the relationship between monetary policy and real estate markets.

Sources


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