



INTERNATIONAL REAL ESTATE CONFERENCE

NOVEMBER 26TH - 28TH, 2024
AT 151 RUE SAINT HONORÉ, 75001 PARIS

Due to confidentiality issues, this full paper has been reduced to its general abstract / a simplified version.

Proponents: Paul Egan & Kieran McQuinn, Economic and Social Research Institute (ESRI)

Session: S02 - FISCAL AND MONETARY POLICIES: IMPACTS ON REAL ESTATE MARKETS

Title: The Impact of Monetary Policy on Euro Area Residential Investment

Abstract:

In this paper we assess the implications for housing supply across the Euro Area of the recent tightening in monetary policy. Official monetary policy rates have risen in response to the sustained period of inflation experienced across countries due to the aftermath of the Covid epidemic and the war in the Ukraine. The increase in official rates has been significant and sustained with the European Central Bank (ECB) increasing rates by over 400 basis points in just one year. At the same time, a number of European economies have noted a relative shortage in housing supply as activity levels struggle to keep pace with the increase in housing demand. A period of monetary tightening has significant implications for the residential property market as it can have an adverse impact through both a demand-side channel (reduced affordability for prospective homeowners) and on the supply side (increase in funding costs for the construction sector). Using a structural VAR approach where a monetary policy shock is identified by explicitly imposing sign restrictions, we examine the implications for housing supply of the contraction in monetary policy across Euro Area countries. Our results indicate that a monetary shock can have a significantly negative impact on housing investment with the effect varying somewhat across countries. The heterogeneity of the impact raises issues concerning the efficacy and efficiency of the monetary policy transmission mechanism.

Keywords: residential investment, Housing supply, monetary policy.