

“The aggregate and distributional implications of credit shocks on housing and rental markets” — Castellanos et al. (2024)

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Summary

- ▶ Quantitative macro-housing paper with:
 - ▶ Housing markets for rental and/or purchase (endog. prices), and agents sort into landlords/homeowners/renters;
 - ▶ Life cycle with idiosyncratic labor shocks & borrowing constraints \Rightarrow Heterogeneous agents in income, wealth, and age profiles;
 - ▶ Bond markets ensures partial consumption smoothing;
 - ▶ No aggregate uncertainty;
 - ▶ Small open economy, i.e. Real interest rates are set in the rest of the world.

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 - ▶ Small open economy, i.e. Real interest rates are set in the rest of the world.
- ▶ The model is used to test:
 - ▶ The Bank of Ireland 2015 macro-prudential policies (loan-to-value, loan-to-income ceilings);
 - ▶ Unexpected changes in the interest rates.
 - ▶ Assessment along several dimensions: Rent-to-price, Average house price-to-income, Home-ownership rate, Welfare.

Comments

Very nice and “clean” paper, I actually enjoyed reading it:

- ▶ Enhanced modeling of the housing market taking into account a number of realistic and relevant features for the welfare effects of housing policies:
⇒ Rich dynamics attained in a relatively parsimonious set-up.
- ▶ Interesting macro-prudential policy studied under a different lens: Real “macro” rather than financial intermediation/banking implications.

Points to consider

- ▶ Clarify why we need a new model to study this macro-prudential policy (There are two contributions but not necessarily one needs the other):
 - ▶ How does this model with *endogenous landlord choices* change the observable effects and transitional dynamics vis-à-vis the previous papers set-up? Expand to show the theoretical and quantitative contribution.

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 - ▶ How do the rents and prices profile over time look like vis-à-vis the true ones as a reaction to an exogenous shock? Local projection can help to show this novel feature of the modeling (finance literature systematically finds excess smoothing).

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- ▶ Not convinced about the aim of the real interest rate shock experiment:
 - ▶ If interest rates are set globally, what are we showing from a counterfactual point of view? Very different experiment wrt the first: Here there are no policy implications!
 - ▶ It would be interesting to endogenize the interest rates, and see what happens. (The changes in the wealth distribution will matter).
- ▶ A bit skeptical about the *external validity* of the results, e.g. For the U.S., r is not exogenous, *refinancing*, and people migrate in response to housing costs. Is refinancing possible? Do we see some reallocation in Ireland? Can housing be used as *collateral*? If so, one needs to add a Kiyotaki-Moore structure.

Points to consider

- ▶ Additional descriptive statistics of the Irish market:
 - ▶ Percentage on fixed-rate mortgage? In the model everyone is 100%. Is it a good proxy?
 - ▶ How liquid is the market, i.e. percentage of non-rent houses? Are inventories stocks important for the Irish case? You can expand the model if they are, or show they are not

Possible extensions

- ▶ “Financial markets” here are really just bond markets.
 - ▶ When you shock interest rates, prices on capital markets would move in the opposite direction of the bonds (higher discount value). That has portfolio for housing, and welfare implications. You can expand.
- ▶ For the next paper: Financial stability seems to be key to consider.
 - ▶ Making a welfare *cost analysis* of macroprudential policies without a welfare *benefit assessment* looks a bit odd.