

UNINTENDED CONSEQUENCES OF QE: REAL ESTATE PRICES AND FINANCIAL STABILITY

Authors:

Tobias Berg (Goethe University)
Rainer Haselmann (Goethe University)
Thomas Kick (Deutsche Bundesbank)
Sebastian Schreiber (Goethe University)

Discussion:

Fabrice Tourre (Baruch College, CUNY)

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Credit market interventions by central banks

- Corporate Sector Purchase Programme (“CSPP”) by the ECB (2016-)
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Unintended consequences: this paper

- Zoom on German “credit-saturated” market
- Real-estate credit and prices

WHAT THE PAPER DOES, IN ONE SLIDE

CSPP allows “treated banks” to re-allocate credit

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- ... and increase credit to real-estate asset managers by same amount

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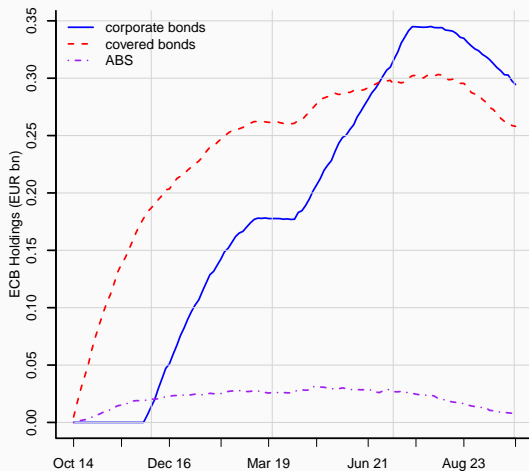
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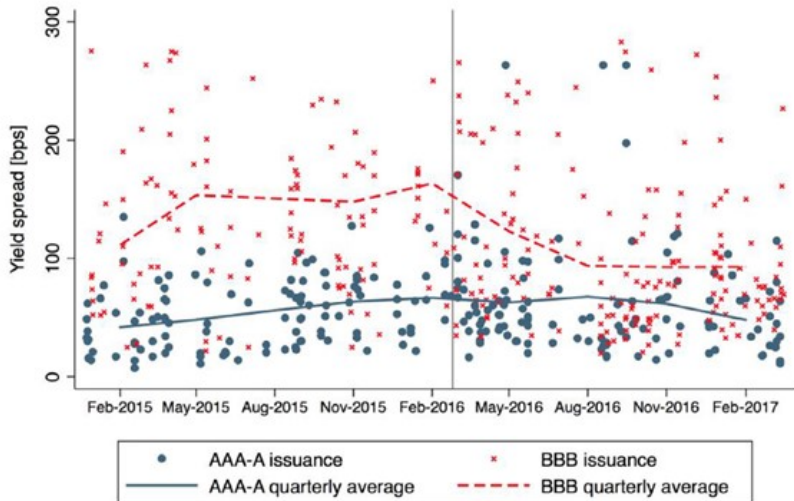
Consequences for financial stability

- Treated banks’ HY exposure increases 1.5pp
- Treated banks’ portfolio concentration increases 3%

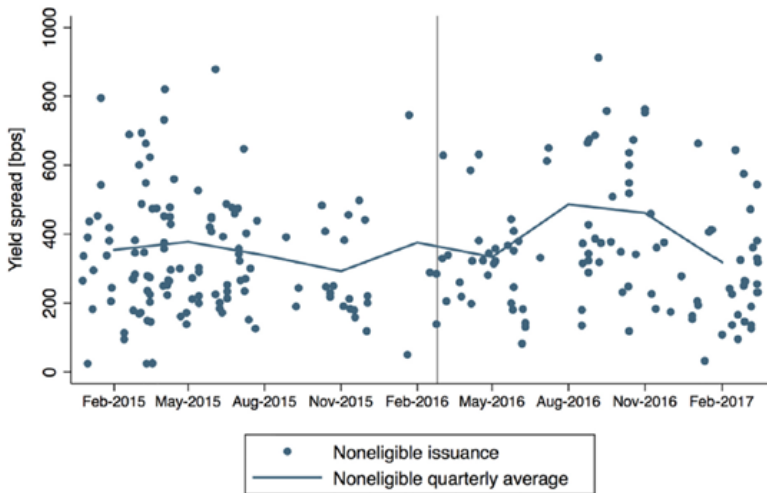
BRIEF BACKGROUND ON ECB CORPORATE BOND PURCHASES



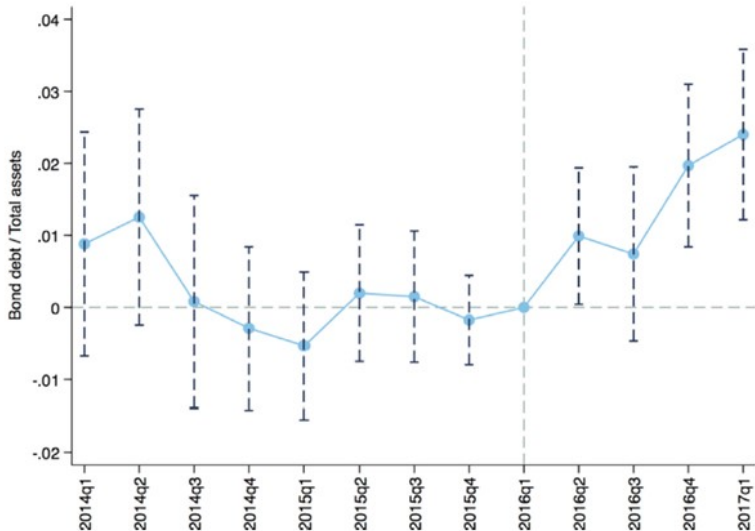
CSPP ANNOUNCEMENT EFFECT ON CREDIT SPREADS (GSS 2019)



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Treatment vs. control: share of CSPP firms in 2015 portfolio \leq median

- \approx 120 treated vs. 120 control German banks
- Identical on many dimensions, except...
 - total loans (EUR 3bn for treatment, EUR 1.8bn for control)
 - capital ratio (17.1% for treatment, 16.1% for control)
 - share REAM (17% for treatment, 23% for control)
- \rightarrow possible threats to identification, alternative stories for why treated banks re-allocate to REAMs (relative to control)
- Solution:
 - control for bank size, capital ratio in regression;
 - matched sample based on size and profitability; suggestion: maybe include initial REAM share? capital ratio?

NON-FINANCIAL CORPORATE BORROWERS

Panel B: Descriptive Statistics on the Industry Level

Industry	# of Firms	Avg. Loan Amount (€m)	Portfolio Share (%)	Date of Incorpor.	Total Assets (€m)				Empl./ Toas	Debt/ Toas
					Mean	p25	p50	p75		
Eligibles	563	99.29	7.88	1991	18,531	171	1,440	19,454	1.31	0.70
RE – Asset Management	21,387	7.20	20.25	2004	29	5	10	23	0.27	0.83
RE – Development	15,210	9.48	13.92	2005	35	5	10	21	0.24	0.86
RE – Construction	6,397	5.04	4.94	1998	18	4	7	15	1.56	0.85
Transport	5,974	12.34	3.78	2002	40	5	10	20	2.43	0.81
Electricity	9,580	8.10	8.29	2009	38	4	7	17	0.40	0.82
Manufacturing	14,707	5.99	10.99	1989	74	6	12	30	7.91	0.67
Professional Activities	7,737	16.68	11.61	2001	237	7	21	95	1.64	0.68
Administrative Activities	4,375	8.38	2.95	2001	76	5	10	26	1.94	0.76
Wholesale and Retail Trade	12,460	4.81	8.24	1991	48	4	8	17	5.86	0.76
Health	3,415	5.35	4.38	1997	54	7	17	55	11.50	0.60
Water	972	8.02	1.39	1995	44	7	14	33	2.86	0.70
Accommodation	1,316	4.75	1.20	2003	12	3	6	11	8.52	0.84
Other Industries	4,232	4.91	2.42	1994	39	4	8	16	3.56	0.69

Other threats to identification

- CSPP firms are very large multi-nationals; who are their lenders?
- Give a list of the largest treated and control banks? Split further between (a) landesbanks, (b) sparkasse, (c) multi-national banks?

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- Why did treated banks not invest temporarily into corporate bonds? (quick way to deploy excess capital)

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- apartment prices (rent) in treated counties \uparrow 3.1% (1.7%) (vs. control)
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Response of rents and the mechanism:

- REAMs use new debt funding to purchase and rent out apartments
 - either these apartments were previously rented out, in which case rental apartment supply is unchanged;
 - or these apartments were previously owner occupied, in which case rental apartment supply increases
- If apartment rental demand unchanged, why did rents increase?
- Price-rent ratio \uparrow not necessarily sign of “over-valuation”