Title of Project : Real Estate Market, Financial Crisis, and Economic Growth: An Integrated Approach of Economics

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Research Area : Economic policy

Keyword : real estate market, financial crisis, economic growth, bubble, collateral

【Purpose and Background of the Research】

Real estate markets have been the epicenter of a number of disastrous financial crises in the world including Japan, US, and Europe. Their relevance for economic growth and business cycles has been underlined by quite a few studies including Reinhart and Rogoff (2009). This research project, participated by economists from different disciplines, primarily focuses on the real estate market in Japan which has stagnated for the past twenty years and examines its association with financial crises and economic growth. The project employs unique and massive databases on the real estate market, households, and firms and provides innovative research output, which has policy implications not only for countries that aim to overcome the financial crises but also for those that currently experience bubbles in the market.

【Research Methods】

The project consists of four closely-related stages: (1) construction of a unified database and implementation of surveys, (2) investigation of pricing mechanisms, (3) examination of individual hypotheses on the association between real estate markets, financial crises, and economic growth, and (4) evaluation of economic significance of the hypotheses and feedbacks to economic theory and policy.

For (1), database construction, the project collects massive amount of data on real estate prices including appraisal values, transaction prices, and rent. The dataset on prices is merged with the dataset on the characteristics of households and firms. It is supplemented by the information collected through a series of surveys to households, firms, and financial institutions. For (2), investigation of the pricing mechanism, the project aims to find ways to detect bubbles in the development of price distributions. For (3), hypothesis testing, the following five hypotheses are adopted for examination:

*Real estate collateral hypothesis
*Systemic risk hypothesis
*Labor and capital immobility hypothesis
*Wealth effect hypothesis
*Asset meltdown hypothesis

Note that the first two hypotheses focus on the financial aspect of interactions between real estate market and the entire economy, while the latter three hypotheses are on the real aspect of such interactions. For (4), evaluation of economic significance, the project quantitatively identifies the most relevant channel between the real estate market and the economy.

【Expected Research Achievements and Scientific Significance】

First, the project plans to develop a procedure that detects shocks to real estate prices based on individual transaction information. The procedure is expected to function as an early warning system of real estate bubbles. Second, the project is one of the first attempts to provide a unified framework of interactions between real estate market and economic activities. For this purpose, economists from different disciplines such as macroeconomics, finance, economic geography, real estate economics, and industrial organization participate in the project and they use unified and unique databases for analysis.

【Publications Relevant to the Project】

・A. Ono, H. Uchida, G.F. Udell, and I. Uesugi (2012) "A Close Look at Loan-to-Value Ratios in Japan: Evidence from Real Estate Registries" Hitotsubashi University Design of Interfirm Network WP Series No. 19.
・A. Ono and I. Uesugi, (2009) "The Role of Collateral and Personal Guarantees in Relationship Lending: Evidence from Japan's SME Loan Market," Journal of Money, Credit, and Banking, 41(5), pp.935-960.

【Term of Project】 FY2013-2017

【Budget Allocation】 143,900 Thousand Yen

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