

Bank Lending Channel of Real Estate Prices

Makoto Hazama, Cabinet Office

Kaoru Hosono, Gakushuin University

Iichiro Uesugi, Hitotsubashi University

Abstract

Real estate price shocks potentially have impacts on banks' balance sheets, their lending behavior, and eventually economic activities. We examine the existence of this bank lending channel in Japan during the 2007-2013 period covering the global financial crisis. In contrast with Gan (2007b) that assumes uniform real estate price shocks after the bubble period in Japan, we identify heterogeneous real estate price shocks that each bank faces by summarizing the land prices of firms with which the bank has transaction relationships. For this purpose, we employ a comprehensive database on firm-bank relationships as well as information on land prices for more than 20 thousand locational points in Japan to find the following: First, after controlling for bank fixed effects, a bank that faces a rise in land prices increases its capital, total loans, real estate loans, and loans backed by real estate collateral. Second, a bank that faces a rise in land prices does not significantly change the amount of non-real estate loans or loans without real estate collateral. Third and surprisingly, after controlling for time-varying firm fixed effects, a bank that faces a rise in land prices reduces the extent of transaction relationships with firms both in terms of extensive and intensive margins. We provide several conjectures that possibly explain the difference in the results between bank level estimations and bank-firm match level estimations.