

# Bank Lending Channel of Real Estate Prices<sup>1</sup>

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## 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, a rise in land prices increases bank capital and total bank loans, which is consistent with the bank lending channel hypothesis. A rise in land prices also leads to a significant increase in real estate loans and loans backed by real estate collateral. Second, a rise in land prices leads to no significant increase in non-real estate loans, and a marginally significant decrease in loans without real estate collateral. This evidences weakly for the portfolio reallocation story between real estate and non-real estate loans but against the forbearance lending story.

*Key Words:* Bank Lending Channel, Real Estate Prices, Portfolio Reallocation.

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