Referee report
"The Aggregate and Distributional Implications of Credit Shocks on Housing and Rental Markets" by Castellanos, Hannon, and Paz-Pardo

Summary

In the existing literature, rental markets are often modeled as (1) rental properties being supplied by deep-pocketed rental companies, or (2) landlords renting out part of housing stock they own. The authors propose a more realistic model in which landlords own multiple properties and rent out some of the distinct properties. This model generates richer and more realistic dynamics of house prices and rents. The authors use the model to study the aggregate and distributional effects of (i) new macroprudential policy limiting the LTV and LTI ratios of mortgage borrowers, and (ii) unexpected increase in the real interest rate. The authors find that these contractionary policies lower house prices and the homeownership rate, but raises rents. Higher rents work as a redistribute device from renters to landlords.

Essential Comments

1. Macro models with housing improved over the years, from the model with deep-pocketed rental companies, the model with landlords renting out part of their housing stock, to the model with distinct rental and housing markets. The current paper offers further improvement of the macro model with housing, capturing the lumpiness of houses that landlords own. The analysis is competently conducted, and the paper is very well written, I think. I do not have many small comments and complaints, and the paper is very easy to read.

2. Having said that, I think the big question is whether this paper offers something eye-opening and deserves to be in a top journal like JPE. It is great that the model generates responses which are quantitatively realistic, but qualitative responses to contractionary policies in the model are not surprising. In a model in which supply of housing and rental markets are not perfectly elastic, and one cannot flexibly convert from one to the other, if a new restriction to purchasing a house is introduced, demand for housing declines and demand (house prices and the homeownership rate declines) for rental properties goes up (rents go up). I am afraid I do not find there is something eye-opening in the paper.

3. I also find the question (what is the big question to be answered in the paper?) not particularly significant. Macroprudential policies are important, but the model does not feature aggregate shocks and the paper is not about trade-offs of macroprudential policies. An experiment with higher real interest rate is meant to capture the effects of a contractionary monetary policy shock, but if that is the focus, I prefer seeing the experiment done in a general equilibrium model with nominal rigidity.

Other Comments and Suggestions

1. Is it OK to compare the elasticity of rental supply in a model capturing the Irish economy to the elasticity of rental supply estimate using the U.S. data? My guess (could be wrong) is that the more properties are owned by deep-pocketed rental companies in the U.S., which could make the elasticity higher in the U.S. On the other hand, in the model, since there is

no such deep-pocketed rental companies, the elasticity in the model could be even higher if there are deep-pocketed rental companies. The authors could be a bit more careful in the comparison.

2. Since many readers (including myself) might not be familiar with the Irish economy, I find it helpful if there is a section that provides an overview of the Irish economy, in particular, basic information about housing, rental, and mortgage markets.