

DESCRIPTION FOR THE GENERAL PUBLIC

Until the Great Financial Crisis (GFC), the macroeconomic literature had paid little attention to the role of housing for the economy. The GFC, which demonstrated that problems in the housing market might lead to deep recessions, resulted in the higher interest of macro-economists in the housing sector and the emergence of the macro-housing line of research. This increased interest of macro-economists in the housing sector has been however focused predominantly on the home-ownership segment of the market, and not on the rental market. The rental market is typically assumed away in classical macro-housing studies, regardless of whether they are based on empirical or theoretical models.

This lack of the rental market in the macro-housing studies should be contrasted with the fact that about one-quarter of OECD population live in rental housing. This implies that the rental market is important for the joint dynamics of the housing sector and the economy. Specifically, several authors have already indicated that the behavior of tenants and homeowners is different, e.g. the response of consumption spending to house price increase depends on housing tenure. This means that **we should better understand the role of rental prices for macroeconomic dynamics**, and this is the main objective of the project. We plan to establish if (i.) changes in rental prices contribute to the variability of the housing market and the macro-economy and (ii.) whether they are important for the transmission of other aggregate shocks, e.g. unexpected decisions of central banks. We will also conduct in-depth analysis the Polish market, for which we will use individual listings data to construct reliable rental yield indices.

Our contribution to the macro-housing literature is that we will provide a comprehensive analysis on the role of rental prices for the joint dynamics of the housing sector and the macro-economy. We will deliver both empirical evidence and theoretical results. We will also provide the results for Poland, including a novel indices for rents-to-price ratios, which we will use to evaluate the impact of rental prices shocks on the Polish economy. By providing evidence the macroeconomic effects of rental price shocks, we will deliver a clear message if the current practice of omitting rental prices in macro-housing models is justified or not. If the results indicate that we should include rental prices in macro-housing models, we will also formulate a set of guidelines on how to do it in practice.