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US Real Estate Market and its Volatility

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Abstract
The US property market is an important part of the economy of the US and residential and commercial real estate plays a major role in the economy, job creation, and investment. US Real Estate is one of the biggest engines of US economy, an economic engine and a capital investment. Interest rates set by the Federal Reserve are major contributors to this market as they impact the cost of borrowing, housing supply and overall market performance. The paper describes how federal rates relate to the housing market, how that compares to the past, and how recent rate changes are affecting that relationship. Knowing these dynamics can aid policymakers, investors and homeowners in managing the real estate landscape.

Keyword: Real estate US, Chinese investment, Federal rate, Indian investment

Introduction

There are many home, business, and industrial properties in the US alone, and collectively there are trillions in real estate assets. Consumption, valuation of property, and the availability of credit are major predictors of market health. The linchpin here is the Federal Reserve, which manages short-term interest rates to exert an effect on stability. These rates impact mortgage rates, borrowing costs and investor demand directly. The aim of this paper is to deconstruct these dynamics and provide some explanation for the effects of the change of the rate. The US housing market is an important part of the US economy and its housing prices and sales are directly linked to consumer wealth, business and state tax revenues [3]. Recently, the newest research on real estate has revealed the connection of real estate market with the financial system as a whole [2]. But the housing market is also a very volatile sector, depending on macroeconomic drivers, such as changes in federal interest rates. [1] [2]

Federal rate impact on Real Estate

The recent real estate research has brought out the fact that the real estate market is part of the overall financial system [2]. The 2008-2009 financial crisis showed how broad-based the failure of the real estate market was, as it fed into the wider economy and destabilized financial intermediation. [3] The more derivatives on financial real estate products used to multiply the turnover of the real estate business and aggravated this crisis. [2] Risk premia and regulatory capital requirements have been one reason commercial real estate valuations are lower now than at any time in history. [4] Federal interest rates determine the real estate market performance because they dictate the cost of borrowing residential or commercial properties. When the Fed raises rates, this means mortgage rates will increase which will increase the cost of financing for a buyer of the home. Then, demand for housing declines and home prices and sales are also affected. So, it's possible that higher interest rates will be an issue for commercial real

estate as well, as the more costly loans to make are to developers and investors, thereby reducing investment demand and causing property prices to plummet. [4] [2]
The real estate market ebb and flow is also directly related to the risk that the industry has on its finances. When real estate economy is fluctuating in a manner that damages the financial system, financial risks become high, even a financial crisis becomes possible if the situation cannot be tempered or regulated. The real estate is a fund-intensity sector, and it has a lot to do with the financial system. Borrower risk from construction, mortgage risk for home buying: both lead to financial instability and thus require policies to eliminate them.
Federal interest rates determine how well the housing market does, because they affect the interest rate to borrow money for both residential and commercial real estate. As the Federal Reserve increases interest rates, so do mortgage rates and the home buyers are forced to pay more for the loan. This can lead to the decline of demand for housing which can cause the prices of houses and sales to drop. So, too can higher interest rates, which affect the commercial real estate space because it puts developers and investors in a stronger position to pay more for funding which may dampen investment and lower property prices. It is not just real estate that's volatile — its very financial potential is entangled in the market as well. Market cycles of real estate economy can affect the financial system and pose high financial risk, even a financial crisis, if not managed or regulated correctly. The real estate market is a fund-intensity market, and it's very connected to the financial system. Loan risks in real estate development and mortgage risks in home buying can be financial risk factors that require insurance policies to avoid.

2008 Financial Crises

The housing sector saw an unbelievable price rise during the decade before the housing market collapsed in 2007 [3]. Moreover, the U.S. lenders were disbursing ever more mortgages to beneficiaries who might have fallen outside earlier, more restrictive standards [3]. That caused the subprime mortgage crisis which resulted in the financial crisis of 2008-2009 [3]. It is one of the foundation industries of the national economy, the real estate. The property industry, too, is a fund heavy industry and it's a component of the financial system. The 2008-2009 financial crisis showed us how broad the effects of the real estate bubble was – it helped fuel the economic collapse and disintegration of financial intermediaries. [3] The higher derivatives use on the financial real estate products used to expand the business with real estate turnover and exaggerated this crisis. [2]
The housing market went through a tremendous price increase in the 10 years leading up to the housing market crash of 2007. Further, the US banks were making more and more mortgages to people who would have failed under earlier, tighter criteria. [3]

Chinese Investment on US Real Estate

The US has always been a great place for foreign real estate investors with its economy, legal protection and quality homes. Of these investors, Chinese individuals and companies are the overwhelmingly largest, especially since the early 2010s. The Chinese investment has affected housing and commercial markets in major US cities. But it has also been criticised on issues of housing affordability, market openness and national security. This article analyzes the scale of Chinese real estate investment in the US, why this is so, and what that means for stakeholders.
This research paper is written mostly for the US real estate market, but the international character of real estate investment can also influence the local markets. For instance, rising Chinese investment in US

property especially at premium prices like New York and California has also been a significant source of rising housing prices in some areas [3]. This foreign capital can also contribute to the US real estate market volatility as economic and government policies in China change which can affect investment trends. This research paper has, in sum, reviewed the highly volatile US housing market, its correlation with federal interest rates, and the financial risk to the sector. What is clear from the results is the need to understand what drives the performance of real estate markets and how to set proper policies to control risk and stability in this important part of the economy. [1] [7] [2] [4] Chinese investment in the US real estate market has significantly influenced housing prices, urban development, and market dynamics over the past two decades. While it has provided economic benefits, it has also raised affordability and security concerns. As geopolitical tensions and regulatory landscapes evolve, the future of Chinese investment in US real estate will depend on a delicate balance of economic opportunities, policy measures, and international relations.

Indians Impact on Real estate market

US is a popular destination for Indian property owners as part of general Indian outbound investment trend worldwide. Increased incomes, credit and international diversification have helped the US market draw in Indian consumers.

From residential investments to provide families and students with homes, to office, hotel and retail investments, Indians buy properties in US real estate. In this article, we will explore the extent and form of Indian investments, how they add value to the US economy and what are their problems and prospects. It is not the purpose of this paper to discuss the impact of Indian buyers in US housing market. But there is also the fact that, Indian investors have also been active in US real estate market for some years now, mainly in commercial segment. Foreign investment from China, India, and so on can influence the US real estate market volatility as economic or government policies in those countries may influence investment trends. This paper lays out a larger picture of what drives the US real estate market, including federal interest rates and how the real estate market is linked to the financial system more generally. It might also be worth future studies to understand in detail how Indian investments impact the US housing market – and how, say, the Florida ban on Chinese H1B visa laborers affects these markets – to give a better sense of the forces influencing this important area of the economy.

Indian investment in the US real estate market has become a defining feature of the sector’s globalization, offering mutual benefits for both countries. While these investments have boosted demand and economic activity, they also pose challenges related to affordability and regulatory compliance. As India’s economy grows and its global integration deepens, the US real estate market is poised to remain a key destination for Indian capital. Strategic policies that balance openness with oversight will ensure that this partnership continues to thrive.

Real estate market after covid

Since the COVID-19 pandemic, the US real estate market has continued to change and move very much. The residential real estate market is holding up, home prices reaching new all time highs in most areas due to low supply and high demand [8]. But commercial real estate has been hit more, and demand for office and retail space is down as remote work and e-commerce continues to revolutionize how we live and work. Federal interest rate hikes have played an essential role in the real estate market since the

pandemic. The Federal Reserve has increased interest rates in an effort to control inflation and with higher mortgage rates has had a cooling effect on residential real estate as prices have risen and sales have slowed. The volatility of the US real estate market is influenced by a variety of factors, including macroeconomic conditions, demographic shifts, government policies, and the availability of financing. [3] The COVID-19 pandemic has been a significant disruptor, leading to changes in consumer preferences, remote work patterns, and the overall economic landscape. [8]
In addition to the impact of federal interest rates, other factors that contribute to real estate market volatility include:

- Changes in employment levels and disposable income, which can affect housing demand and affordability [5]
- Shifts in population growth and migration patterns, which can impact regional housing markets
- Fluctuations in construction and development activity, which can create imbalances between supply and demand
- Modifications to zoning laws, tax policies, and other government regulations that can alter the investment landscape
- Understanding these diverse factors and their interplay is crucial for policymakers, real estate professionals, and investors to navigate the complexities of the US real estate market and mitigate the risks associated with its volatility.

Literature Review

In the literature on the connection between real estate and the rest of the economy, a number of conclusions have been drawn.
First The real estate industry has a direct connection to the banking system, which means that the access to credit and the interest rates influence the real estate market performance [1][2]. Instability in the real estate market can have deep repercussions for the world economy as the subprime mortgage crisis of the late 2000s showed. It is evident that the price of real estate and financial intermediation can influence macroeconomic volatility as their movements can affect investment, consumption and economic activity. [4]
Second, the real estate market is itself volatile – due to demographic change, building construction, and government regulations. The work here indicates that policymakers and the industry must take into account the special situation of the real estate industry when devising economic policies. Third, federal interest rate changes are a messy matter of different kinds when it comes to the housing market.

Methodology

To address the research question, this paper will employ a multi-pronged approach, drawing on both theoretical and empirical analyses:

1. **Theoretical model:** Building on the existing literature, I will develop a theoretical model that incorporates the role of financial intermediation and real estate prices in a two-sector real business cycle framework.
2. **Empirical analysis:** I will conduct an empirical investigation using Bayesian econometric techniques to quantify the relative importance of real estate prices and financial conditions in driving macroeconomic and financial volatility.

Discussion

The findings of this research are key for policymakers and industry actors. First, the research shows a greater need to know more about the structure of the real estate market and how it is related to the financial sector and economy as a whole. [10] [4] [1] [9]

Second, the analysis makes it a priority to also account for how the federal interest rate movements will affect the housing market as well as the overall economy.

Third, the paper proposes that macroprudential policy measures to restrain unsustainable asset prices, including real estate, could be a useful instrument for financial stability and mitigating volatility in real estate prices.

Federal interest rates are closely linked to US real estate but in many ways, they aren't. Interest rates can also make huge waves through the real estate market for investment as well as consumption. [4]

Conclusion

This paper illustrates the multifaceted relationship between federal interest rates, US housing market and the economy at large. These findings make it imperative that policymakers and the industry take into account the particular character of the real estate market and its relationships with the financial system and macroeconomic environment.

There are a number of variables in the US real estate market such as macroeconomic, demographic, government policy, and financial financing [2] [9].

The effects of Federal interest rate changes on the real estate market are huge for investment and consumer demand.

The US real estate market's sensitivity to Federal Reserve interest rates underscores the need for nuanced policy approaches. While rate adjustments are necessary to control inflation, their cascading effects on housing affordability, construction, and economic equity require careful consideration. A deeper understanding of these dynamics can lead to more resilient and equitable housing markets.

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