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The size of the rental market and housing market fluctuations

The paper investigates whether the size of the rental market affects fluctuations of house prices and the activity in the construction sector over the business cycle. For that purpose we construct a database of describing the housing sector in a group of twelve euro area countries over the years 1995-2013 and conduct a series of panel regressions. We find that a developed rental market attenuate the reaction of house prices and economic activity in the construction sector to external disturbances. This would indicate that differences among monetary union countries in terms of rental market developments might lead to heterogeneous response to common shocks.