



[The Residential Collateral Channel](#)

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The Great Recession has highlighted strong links between house prices, credit and the real economy. One of the theories to explain these links is related to the collateral channel: movements in real estate prices change the value of the collateral that determines economic agents' borrowing capacity. This affects the investment and spending decisions of firms as well as households.

We provide novel evidence on a particular type of collateral channel which we refer to as the residential collateral channel: an increase in real estate prices expands firm activity by enabling company directors to utilise their residential property as a source of funds for their business. We find that this channel is a key determinant of investment and job creation, with a £1 increase in directors' residential collateral estimated to increase investment by £0.07 and total wage costs by £0.10. To show this, we use a unique combination of UK datasets including firm-level accounting data matched with transaction-level house price data and loan-level residential mortgage data.

We complement this with further evidence on the corporate collateral channel whereby an increase in real estate prices directly expands firm activity by enabling businesses to borrow more against their corporate real estate. A simple general equilibrium model with collateral constrained firms is used to quantify the aggregate effects of both channels.