Spatial Economics Research Centre

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# QE: the next bubble?

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QuantitativeEasing (QE) has been pursued by Central Banks in many countries, few more diligently than in the US and in the UK. Reports from experienced watchers of commercial real estate suggest this could generate a flood of cheap money – not into productive investment but into the high yields offered by commercial real estate or its liquid versions, Real Estate Investment Trusts. This is because QE pushes yields on bonds and securitie ever further below the rate of inflation. Such shifts are already said to be visible in the US where the economy is doing just a bit better than in the UK o Europe. Of course this pushes down yields in real estate in proportion to pushing up market values. According to the FT (£) there could already be sig of this in London.

If investors really believe this low-inflation, low-interest environment is permanent, QE could well trigger yet another financial bubble. The problem is th such touted permanent changes in underlying economic relationships seldom are. Parallels are the supposed 'step change in productivity growth' that fuelled the late-1990s IT bubble or the low real interest rates of the 2000s that created irrational exuberance in some US mortgage and housing marke The difference is that this time, rather than being driven by cheap funding, investment in real estate equity is driven by QE.

The question is: what happens when Central Banks roll back QE in two or three years, and money becomes more expensive? It could trigger a bust in commercial real estate markets because the real economy does not look as if it is going to be driving up rents any time soon. In turn, that could damag balance sheets of real estate companies – and of banks who have lent out the funds in search for a return. What then?

At the moment these are just the observations of well-informed insiders and some straws in the wind. But if this is really happening, then the consequences would be unpleasant indeed. Not a double dip, not a triple dip, but a triple dip recession followed by a financial crisis caused by the attempts to kick start the economy from the first financial crisis. Maybe Central Banks should turn some attention to evaluating the evidence: where are the funds going? What is happening to real estate yields? Are any changes observed in these justified by fundamentals in the economy or are they another bubble in the making?

Posted by Dr. Christian Hilber on Friday, March 22, 2013 G+1 Recommend this on Google

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**Anonymous said...**

Wisely said Christian. LSE Alumni.

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