The role of real estate sector in the global economy, after the financial crisis

Prepared for
Evolution, Recovery, and Sustainability: Perspectives on the Real Estate Economy
UNECE – REM Conference
Geneva, 26 June, 2012
Agenda

• Real Estate role in the economic growth.
  • What it is known

• Market mechanism damaged in the crisis:
  • the key for recovery

• Ways to real estate and economy recovering
  • Drivers

• The debate for European economy recovery
Definition of real estate:

- Include economic activity related to construction goods and assets, with a MARKET
  - Transaction of space services and/or property assets
  - Finance and investments… financial assets
  - Other related services
- Main markets: residential (house market) and non residential (offices, retail, industrial,..)
- Linked to the financial mechanism
- Needs of other high quality/human-capital-intensive services
  - Knowledge
- the Market is the main resource allocation mechanism in real estate.
  - Prices are the signal
Real Estate role in the economic growth
What it is known..

- From construction (supply side)
  - ‘Motor’ moving the economy:
    - 4-5% of GDP (housing),
    - Construction investment is 18% of total GDP or over
      - Use to be over 65% of domestic investment in a year
    - Multiplier effect: around 3.5% of total final investment, 2.5% of total inputs demanded
  - Building.. Strong work creation (more intensive in labor)
  - Construction materials industry:
    - new materials .. Research improving quality
    - new construction systems (research and innovative sector)
  - Increase the productivity of other sectors
    - Infrastructure investment is a key of economic development long term (Sets, 1995, Destefanis and Sena, 2005, Ganelli and Cervala, 2010, Romer, 1994)
Real Estate role in the economic growth
What it is known..

- From construction (supply side)
  - ‘Increase accumulated knowledge:
    - research in engineering,
    - Construction systems
    - Planning… Redesigning cities

- Update/Increase the quality of structures.
  - Products .. Housing stock, office buildings (business center)
  - and services associated to construction

- Produce CAPITAL GOODS (durable goods)…
  - Working over 50 years at least
Real Estate role in the economic growth
What it is known..

- From real estate market (demand side)
  - Covers basic need in the economy:
    - HOUSING, 1st basic need for population
    - welfare, Mishan, 1961, Bengtsson, 2001
  - Offices, covers modern, well-linked knowledge
    - external effects.. (Romer, 1994)
  - Industrial.. Innovation on industrial production
  - Retail… modernizing and more efficient space (distribution system)

- Attracting investmentes: concentrations flows (Fujita, Krugman and Venables, 1999)
  - Worldwide
From real estate market (demand side). 3 key roles

  - Incentivate human –capital intensive labor markets
  - In a stable economic growth/recovery .. Key role
    - Boom period… stress disequilibrium

- Key role in the society (housing market)
  - Ownership plays special role in developed countries (Lee, 2000)
  - Increase the society hapiness .. (public policy tries to increase homeownership rate in all developed countries, Glaeser, 1994, Dietz and Haurin, 2003)

- Expand financial activities. Key role
  - International capital movements: Δ investment
  - Diversify investment portfolios.. ∇ risk…… global
Real Estate role in the economic growth
What it is known..

- From real estate market (demand side)
  - Create new economic activity sectors
    - Golf courses
    - Senior housing (Gibler et al, 2010)
    - Building re-use (Bullen, 2007)

- Real estate management:
  - innovation in management (new forms to use real estate..
    Associated to the society modernization)
MACRO-ECONOMIC EFFECTS

- Welfare implications, society development.
  - Fail on Housing Markets … need for Public Policy
- Generalised Income and Wealth effects

- Intensive economic connection: spillovers (Iacoviello and Neri, 2010)
- Monetary Policy … Price-asset channel (Muelbauer, 2007, Mishkin, 1995)

- Financial implications (Duca, and Muelbauer, 2010)

Signal: PRICES

- Key role
Different market levels
- Local and domestic: housing market
- Regional: retail, industrial
- National and international. Offices

Highly heterogeneous: each market depends on their special conditions:
- Constrains from supply side.. Land, construction system, regulation, public policy (housing, infrastructuers)
- Demand habits: homeownership, retail demand and tastes, industrial specialisation,
- Urban structure

Puzzle… needs strong knowledge to understand
Real estate market mechanism (simplified)

ΔGDP

Δ Labour Mkt

Δ Effective demand

Financial Funds

Δ Domestic consumption

Wealth Effect

Ownership

Δ transactions

House price signal

Δ building

+ Financial Funds

Financial System

Δ Added Value and Employment

Income Effect
The debate for European economy recovery.. What happened...

- Centered in the confidence crisis on euro, some sovereign economies,
  - Confidence crisis broken the financial **mechanism** of capital transmission .... Towars developed countries
  - Monetary / credit multiplier failed

- In Europe is affecting to all economies, not only those in eurosystem... internal devaluation
  - Lower value of their capital (all forms of capital)... ∇ Prop values
  - Recession ... Lack on credit (normal levels)

- Credibility of some countries ...
  - unification of policies
  - and ways of life? .... Very convergent among UE (Germans in Spain, Spanish in UK, nordics in Italy.....).. COMMON RULES
The debate for European economy recovery.. What is needed to do

- Common rules. Regulation unification?
- Recover the financial mechanism… new or the existing one?
- ‘Normal’ credit system …. Economic recovery .. Towards new world
- Based on real estate markets developing
  - New markets to demand real estate
  - New ways to demand and consume real estate
- Based on knowledge and sustainable economy:
  - sustainable buildings,
  - housing in environmental framework (self-sufficient in energy…),
  - advance real estate management (capital flows globally integrated, financial system transparent and qualify, rent market integrated,…)
New demand and consumer tastes, due to
- Household formation: new patterns
- New tastes
- Renovation and rehabilitation (most stock was built during fifties and sixties)

Prices falling....
- Relative to other capital/income?... Internal deflation
- Crisis forever?, no, new equilibrium...

Lower costs and innovate with technology
- Nanotechnology for: products, materials, management system.

Sustainability.. Needs for sustainable..
- Developments
- Efficiency in the resources allocation and use.. Land?
The debate for European economy recovery. Challenges to face

➢ Transparency in RE markets
  ➢ RE mkts in real times?... Statistical information, monitoring Mkt.
  ➢ Global level

➢ Market failures:
  ➢ Housing policy adapted to modern society
  ➢ Solve the cyclical problems of affordability
Summary

• Depends on how economy behave
  - Fail on economic mechanism must be solved or substitute
  - After, economic recovery is following.

• Accelerate the recovery through......
  - Income – Wealth effect … increasing domestic consumption
  - Researching and building with new technologies
  - Key: sustainable construction
What ERES is

- Non-profit organization at European level (Dutch based regulation)
- Universities and research centres in Real Estate
  …www.eres.org
- With relevant industry players
- Aims:
  - to encourage research and promote education in real estate and closely allied areas, at European level
  - to improve communication and exchange information in real estate and allied matters among college/university faculty members and practitioners who are teaching or engaging in research in property, real estate and land use
  - to facilitate the association of academic, practising professional, and research persons in the area of real estate and closely allied areas
  - to encourage professionalism in practices related to real estate and closely allied areas as well as other activities promoting the purposes of the foundation
What ERES organized

- Yearly conference (320 papers as average) from 1993
- Education seminar once a year since 2005
- Industry seminars twice a year since 2000
- Joint activities with other academic/researchers groups
- Knowledge transmission focused on European research: Journal of European Real Estate Research (JERER)
- Prizes, recognitions of academic and industry excelence
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