



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

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Evolution, Recovery, and Sustainability: Perspectives
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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



- 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)



- 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)
 - knowledge economies of scale... Silicon Valley? City of London? Frankfurt? (Keilbach, 2000)
 - Industrial.. Innovation on industrial production
 - Retail... modernizing and more efficient space (distribution system)
 - Attracting investmentes: concentrations flows (Fujita, Krugman and Venables, 1999)
 - Worldwide



Real Estate role in the economic growth

What it is known..

- From real estate market (demand side).3 key roles
 - Strong income and wealth effect (Case, Quigley, Shiller, 2001,2003)
 - 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
 - Innovation in finance (diPasquale and Wheaton, 1996, Hancock, 1997, Muelbauer, 2008)



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)



Real Estate role in the economic growth

What it is known..

➤ 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



Real Estate role in the economic growth

What it is known..

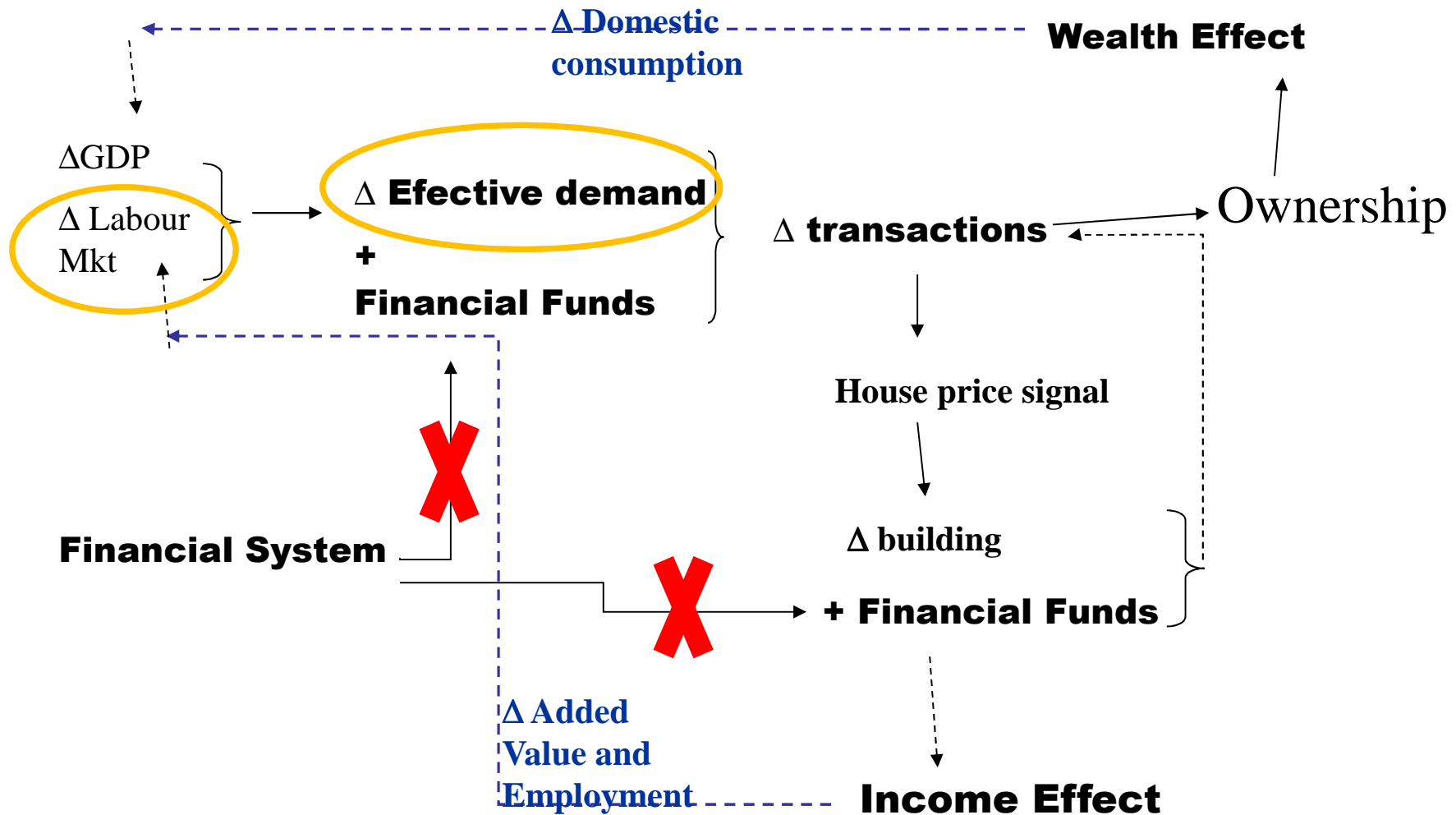
- Different market levels
 - Local and domestic: housing market
 - Regional: retail, industrial
 - National and international. Offices

- 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)





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 Towards 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,...)



The debate for European economy recovery. Challenges to face

- 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 excellence

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