Trends in Real Estate Research

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Overview

• Real estate from an economics/finance/business perspective
• Brief History Lesson – real estate research has been a success story
• What are likely to be the topics for future research?
A Definition

Real Estate - a heterogeneous, illiquid (thinly traded), fixed-in-space (risky) asset with a unique set of institutional characteristics.
What Makes Real Estate Interesting?

• Unique Data and Modeling issues of heterogeneous asset
• The Spatial Component
• Illiquid and thinly-traded
• Unique Risk – Return Tradeoff
• Institutional Environment – Property laws and tax rules are examples
Brief History Lesson

Roots of Real Estate Research
A. Urban (Land) Economics -- Spatial Component
B. Financial Economics -- Valuation of Risky Assets
Research over the past 25 years

- Hedonic Pricing Models
- Risk-Return – Valuation Models
- Securitization – Debt and Equity
- Financial Engineering – Options and Futures (particularly mortgage pricing)
- Data Availability – GIS Technology
From Theory to Practice: Success Stories

- Price/Return Indices
- Data/Information Firms
- Globalization of Mortgage Securities and REITs
- Global Real Estate Portfolios
- Wide spectrum of financial claims
Exciting Time for Real Estate Research

• Data Availability
• Wide array of journals/conferences to publish/present research
• Econometric/Statistical Tools
• Theoretical Developments
• Rise of Capitalism – leads to property rights/markets
Unresolved Research Issues

• Pricing the spatial effects
• Managing risks in real estate investments
• Securitization of equity claims
• Comparative analysis of property markets
Pricing the Spatial Effects

• Availability of Spatially Coded Data
• The problem: How to analyze data that are spatially associated.
• Developments in Spatial Statistics
• Spatial Econometric Tools/Software
• Example: Spatial/Temporal “Cap” Rates
Managing Risks in Real Estate Investments

From a finance perspective:
Diversification
Insurance Contracts
Hedging/Options
Managing Risks: Diversification

- Diversification – the key benefit of real estate investing
- Global diversification – what are the drivers of risk-return?
- Direct versus Public Markets in Global Real Estate Investing
Managing Risks: Insurance

- Recent Developments in Insurance
  Example: Environmental Risks
- Can we develop other new contracts?
  Example: Tenant Default
Managing Risks: Hedging/Options

• Who is optimal risk-bearer in real estate investments?
  Example: Lease Rental Changes

• Risk Management Tools – A major issue for future research
Securitization of Equity Claims

• The problem? Separation of ownership and management.
• Why has market been relatively unsuccessful at real estate equity securitization?
• Is there something about real estate equity claims that limits securitization?
• Is the REIT structure the solution?
• Public Market Penetration – How much?
Globalization Trends

- Comparative Property Studies
  Examples: Leases, Housing Markets
- Developing Property Markets
  Example: Title assurance
- Global Property Funds
Summary

Exciting time for real estate research since the availability of data and tools makes it easier to model and analyze the fundamental characteristics of real estate.