

Trends in Real Estate Research

C. F. Sirmans

Director, Real Estate Center and
William N. Kinnard Professor
of Real Estate and Finance
University of Connecticut
cf.sirmans@business.uconn.edu

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.