Editorial

Global financial crisis resonance on real estate markets

The global financial crisis (GFC) has had major effects on real estate markets. The channels through which financial distress has spread its effects are being more fully appreciated as the data become more readily available and researchers through economic intuition link the evidence base with already known fundamental mechanisms. The outcomes are creating greater awareness of characteristics that affect real estate markets and their reactions post the crisis period, as well as potential changes in mechanisms that can affect investment decisions.

This issue of *JERER* provides good examples of how researchers identify these changes in European real estate markets resulting from the destabilising impacts of the financial crisis and by defining its effects on policy, real estate investment and the productivity. Two specific aspects are covered in this issue: firstly, the effect on investment risk ratios through new patterns of volatility, and secondly, the effect on the real estate values and prices in the market derived by the market failure.

In the first group, two papers focus on volatility. The relevance of real estate price volatility and its dynamics for investment processes is well founded in the literature, and as the real estate market became global, assets were characterised by co-movements and contagion effects on their prices or returns. *Liow and Ye*, using the Markov-switching (MS) regime approach, demonstrate that during the financial crisis, a period of extreme volatility occurred because the (causal) interrelationships between (globalised) real estate markets contributed to greater (than normal) spill-over effects rather than to contagion effects between yields. The results of their research show that globalization, which has generated global real estate market cycles, reduces the benefits of diversifying investment portfolios while increasing the potential risk factors that are amplified as a result of the greater causal relationship between investments and the volatility of spill-over effects during the crisis period. *Akinsome*, *Coskun*, *Gupta and Lau*, using the same technique for UK REITs' data, define three regimes in terms of the period of volatility and show evidence of herding behaviour when volatility is lower. They also identify changes in investment behaviour patterns between periods, with shifts between anti-herding behaviour in periods of high volatility to the opposite situation when volatility is reduced to the lowest level. Findings indicate that market sentiment/psychology are determinative factors of risk-return of UK REITs.

The literature provides evidence of how the financial distress period has led to increasing default of both real estate projects and mortgages (companies and individuals). The result has been an increase in real estate assets in liquidation that are valued under adverse market conditions. Valuation theory explains that liquidation prices have some correspondence with market prices and vary according to the circumstances of the debtor, although empirical analysis has focused primarily on identifying those values associated with companies or investment funds' assets. After the GFC, the accumulation of assets for sale derived from distress in the mortgage system has generated information on specific factors such as evictions rates and auctions or debtor–landlord agreements to determine liquidation prices. Two papers in this issue deal with the rationalisation of liquidation values. The first by *Holtslag-Broekhof, Beunen, Marwijk and Wiskerke* analyses how private agreements and the court's valuation applied to Dutch compulsory purchase (CP) are inconsistent with professional real estate valuation. The findings show variations between court property

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valuations owing to legal interpretations or the application of different valuation systems, resulting in an average compensation which is 56.7 per cent higher than the expropriator offer. *Rosane Hungria-Gunnelin* tests bidding strategies in residential real estate auctions in Stockholm to find empirical evidence of their effect on the final selling price. The results suggest high correlation between selling prices and the speed at which the auction is held.

Empirical evidence indicates the need to use updated analytical methods to estimate resulting changes from capital market shocks. The paper by *Marcelo Cajías* evaluates the advantages of using the GAMLSS method to estimate the prices controlled by quality. Applied to a rental database in the city of Munich, the analysis suggests greater precision in predicting rentals adjusted to local factors. One of the most widespread effects of the crisis has been the sharp decline in housing construction in most developed countries. The role of developers with market mechanisms, regulation and incentives to recover their activity rhythms is a relevant issue to understand the evolution of the real estate and investment sector. The two final articles of this issue focus on this aspect. *Emily Ward* models the property development process from an actor network theory perspective, integrating the relationships between structure and agency to take into account social and economic aspects in the process of property development. The results indicate that there is a two-way relationship between the developer and other stakeholders in the construction process, through which the former receives influences from all spheres (economic, cultural, legal and political) in the decision-taking process and creates networks to reduce the risk involved in the development. *Manganelli, Vona and De Paola*, focus on the cost–benefit assessment of the incentive for private investment in the renovation of real estate assets of earthquake protection, in Southern Italy. The findings suggest that introducing a compulsory system of insurance against seismic risk is required.

The particular issues discussed in this issue of *JERER* have resonance across different stakeholders and sectors within real estate. I hope you enjoy reading the particular perspectives carried in this issue of the journal.

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