From macro to micro analysis: new findings from real estate markets in Europe

Journal:	*Journal of European Real Estate Research*
Manuscript ID	JERER-09-2022-0028
Manuscript Type:	Editorial

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The post-pandemic effect on the economy is affecting real estate markets. The rise in inflation and disruption to supply channels, in addition to the increase in risk due to the Ukrainian war, are changing the way in which markets work and reach equilibrium. In this issue, some of the mechanisms to understand real estate market performance are analysed, particularly focusing on real estate prices. The new evidence contained in the manuscripts can be grouped into three categories. The first one contains research with a more macro perspective. The second category contains new evidence of how transactions are related to brokerage features, while in the third, research using spatial econometric tools, an increasingly used method in real estate, appear.

The first group has a more macro focus on the general trends affecting real estate markets. *Kishor and Kundan* analyse comovements and spillovers among commercial and residential markets belonging to quite different economies, specifically the transmission of shocks between European, Asian, and US markets. They find evidence of a common component across markets which explains a large proportion of their price movements, that the spillover from residential to commercial real estate dominates, and that the cross-influence increased significantly during the financial crisis, suggesting an increase in integration. *Tsolacos, Lux and Chen* analyse the factors influencing the credit spread on mortgage loans for the commercial market. They found that mortgage pricing includes a risk component associated with the property sector which is quantified, with a premium (35bps) on loans given in the regions relative to London and also on secondary assets of 50-60 bps, showing the existence of differences across regions affecting the mortgage price, that the paper assigns to regulation disparities applied through different LTVs.

The second group of manuscripts focuses on the features of property brokers from different perspectives. *Ahlenius, Berggren, Gerdemark, Kågström and Åge* analyse the occupational life cycle of more than 5,300 registered real estate brokers in Sweden. They observe when the professionals enter and leave the property market, finding an average time of stay in the market of 8 years, which is substantially lower than what the literature suggests, with notable differences by gender and cycle. *Dimopoulos, Nikiforou and Sivitanides* investigate TOM and how the degree of overpricing is associated with the time the property is on the market and the final transaction prices in the Paphos area, Greece; using a dataset of more than 5,500 transactions from 2008 to 2019. The paper finds an overpricing of 11% which is due to a small and less transparent market with a high level of transactions. The evidence supports the idea that most of such price increases are due to property size, with smaller units being sold faster and at a higher price per square metre, suggesting that any analysis based on TOM should control for the non-linear effects of property size.

Changing the focus of analysis, *Sønstebø, Flått, Olaussen and Oust*, examine hijacking behaviour in planned auctions in the residential market in Oslo, Norway during the decade 2007-2017. The authors analyse the likelihood of auction hijacking occurring and find a larger probability that it happens during periods of higher market activity, contributing to a price premium of 4%. The size of the stakeholders in real estate markets is also found to be relevant in determining prices. *Karpestam and Palm* demonstrate that the tenant-owner association size affects condominium prices in Malmö, Sweden. Using a mix of quantitative and qualitative research, the authors find significantly negative relationships between the prices of condominiums and the size of tenant-owner associations, and that larger associations could achieve economies of scale in property management and be in a better position for obtaining mortgages from the banking system.

The need to understand idiosyncratic features affecting real estate prices led analysts to focus on microdata at the spatial scale. The application of spatial analyses in real estate is on a rising trend and we have good examples in this issue with three manuscripts. The first one comes from Warsaw (Poland), the second from the Iberian Peninsula (Portugal and Spain) and the third from Greece.

Tomal analyses the accuracy of self-reported home valuations in Warsaw, Poland. He estimates the differences between the owners versus the market opinions on price, the latter estimated using spatial methods which permits inclusion of heterogeneous buyers' housing preferences. Findings confirm positive valuation bias which depends on the physical, locational and neighbourhood attributes of the property as well as the age and employment characteristics of the respondents. *Cunha and Lobão* explore the heterogeneous dynamics of housing prices, spatially controlled, in the two Iberian countries. Analysing at metropolitan level, in both Spain and Portugal, the paper estimates long-term and short-term price components to explain the dynamics of housing prices by using several different econometric methods to find the best estimator. The empirical exercise finds different reactions of housing prices depending where the MSA is located, with inelastic housing supply and elastic price relative to income changes in coastal areas, whereas elastic supply and a non-significant price to income elasticity in in-land areas. *White and Papastamos* use two STAR models to estimate buyer behaviour to price expectations changes in Athens, from 2007-2014 with a dataset of 24,500 property values. Starting by testing the 'sticky' price feature of the housing market, the research finds that the adjustment of the housing market during the bust periods is made through weakening spatial effects with significant temporal effects, providing evidence that rejects similar hypotheses in the existing literature. The analysis explores whether future price expectations affect price-setting behaviour and steps that need to be taken into consideration when analysing spatial interactions in housing markets.

As can be seen, this issue is full of novelties and new findings which make it valuable reading. I hope you enjoy it and the fascinating new results it contains as well as providing new hypotheses and lines of inquiry for future work.

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