

Risk, bubbles, mortgages and affordability

The global financial crisis (GFC) aftermath has had great consequences for the real estate market, not only from its economic effects point of view but also in changes in how real estate markets perform, their structure and, especially, the argument that methods and theory should be revised. This new thinking ranges from macroeconomic impacts (including the role of real estate markets in macroprudential rules) to micro effects. Particular concern surrounds implications of the potential existence of a new real estate bubble in the markets and the rising in lack on housing affordability in an increasing number of developed countries.

This issue of *JERER* reflects the current research on these issues. The three first papers are devoted to risk aspects of price dynamics: evaluating bubbles, returns and risk.

Hagemann and Wohlmann find that monetary developments show large explanatory power in relation to housing bubbles in 18 developed countries. Using GSADF tests, their paper identifies differences among housing bubble periods in those countries and differences between Europe with other countries overseas. The results show that risk evaluation varies depending on the variables leading housing prices, and the paper finds a starting bubble in some European markets. The use of GSADF technique in bubble identification is becoming popular in several parts of the world.

Owusu, Tweneboah, Ijason and Jeyasreedharan develop a highly detailed analysis of returns in Global REIT equities for the post-GFC period applying a generalised lambda distribution technique. The analysis applies different methods to analyse REIT returns comparing those located in Europe with REIT returns in other country based with implications for investment decisions and policy-making. The method allows classification of European REITs in different groups and comparison of their economic features with pairs in the global market. The analysis allows identification of symmetric behaviour and matching periods among returns of global REITs.

Cruz Rambaud and Del Pino Álvarez analyse the implications of “floor clauses” in Spanish mortgage risk. The floor clause was a generalised financial tool applied in Spain before the GFC to cover institutions against the interest rates’ risk. The method was applied to adjustable interest rate mortgage lending and established a minimum of interest rate to be paid when the reference rate (Euribor) fell below that value. This paper evaluates the implications on mortgage value of having or not having such a clause and the costs for the banking system of compensating them.

The second group of papers in this issue lies in analysing housing satisfaction and affordability. The paper by Anderson focusses on housing satisfaction in transition countries. In these countries, the housing market transition from a centralized to a market-based system has been achieved through selling houses to their occupiers resulting in an extraordinary increase in the rate of home-ownership. This paper investigates how ownership tenancy contributes to satisfaction levels in European transition countries (including Greece and Turkey). The analysis uses a variety of econometric methods (from the family of OLS, logit and probit models) to test the satisfaction hypothesis controlling by urban location and several other household features. The paper finds that homeownership (prime home but also second home or land) is associated with greater life satisfaction but at different levels depending on the particular country. This is a key issue which requires much more research as a relevant fact affecting the future of European housing markets.



Schmidt reviews the German experience in a novel theoretical analysis of policy measures to improve homeownership in Germany. She highlights the affordability problem arising in most developed countries in both ownership and rental markets and the difficulties faced by a household to become a homeowner in Germany. By defining an equilibrium model with a reality simplification (two types of household, two houses), the paper examines affordability by introducing the existence of a subsidy, a policy measured applied in Germany since 2018, but without evidence effects yet. Her analysis supports the idea that subsidies will increase (all types of) housing prices and reduce the chance of some families to afford a house.

The last two papers in this issue by Lisi analyse the relationship between rental and ownership prices, the price diffusion mechanism and the effect of taxes. In the first paper, the focus differs from the traditional view in that it approaches the matching mechanism in labour market analysis and assigns an expression to the reservation prices of both the house seeker and tenant, in ownership and rental markets. In the second of these two papers, Lisi examines the definition of interaction between ownership and rental markets and clarifies the role of taxation.

The papers in this issue collectively capture the scope of real estate research from highly applied (using several methodologies) to mainly a theoretical focus. I hope that you will enjoy reading this issue and new evidence on European real estate.

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