

MIT Open Access Articles

Introduction for REAL-Maastricht-MIT special issue

The MIT Faculty has made this article openly available. **Please share** how this access benefits you. Your story matters.

Citation: Eichholtz, Piet, David Geltner, and Seow Ong. "Introduction for REAL—Maastricht-MIT Special Issue." *The Journal of Real Estate Finance and Economics* 41.1 (2010) : 1-2-2.

As Published: <http://dx.doi.org/10.1007/s11146-010-9238-3>

Publisher: Springer Science + Business Media B.V.

Persistent URL: <http://hdl.handle.net/1721.1/64735>

Version: Author's final manuscript: final author's manuscript post peer review, without publisher's formatting or copy editing

Terms of use: Creative Commons Attribution-Noncommercial-Share Alike 3.0



The 2008 Maastricht-MIT-NUS property Investment Symposium was held in Maastricht at December 17-19 in Chateau St. Gerlach. In all, eight papers were selected for presentation at the conference, and after the review process four papers were accepted for publication in this special issue.

In their paper “Housing Price Dynamics in Time and Space: Predictability, Liquidity and Investor Returns“, Min Hwang and John Quigley explore the predictability of housing returns at the aggregated level and at the level of the individual dwelling, using a database covering all condominium sales in Singapore over an eleven year period. For this, they estimate a repeat sales house price index in an innovative way, based on the notion that individual house prices may be predictable in time and space, but not at the aggregate level. Traditional repeat sales house price indices assume that individual house prices follow a random walk, are uncorrelated in space, and generally suggest that aggregate housing returns are predictable. Hwang and Quigley assume that individual house price errors are correlated in time and space when estimating their house prices index. When aggregate housing returns are calculated on the basis of this index, they are not predictable.

To add a little more spice to this issue’s offering for real estate price index aficionado’s, the next paper is a contribution by Marc Francke of the University of Amsterdam. His paper presents a new method of constructing a repeat-sales price index which can be seen mathematically as a generalization of the major methods previously presented in the literature. Francke’s method employs a local linear trend to liberate the price index from the constraints of purely time-dummy based specifications, enabling the index to be intriguingly robust to small sample sizes. Francke applies the technique empirically to Netherlands housing prices, at various scales including a very thin zip-code level dataset. The model produces admirably smooth indices even with very sparse data. The extension of the empirical time sample to include the first stage of the downturn in Dutch housing prices allows one to observe the performance of the technique in capturing a turning point in the market.

Shaun Bond and Paul Mitchell explore a dataset on the performance of non-listed real estate funds in their paper “Alpha and Persistence in Real Estate Fund Performance”. They exploit this database to investigate whether fund managers can persistently deliver superior risk-adjusted returns. This issue has been investigated quite extensively for listed property companies, like US REITs, but has been hardly addressed at all for non-listed funds. The latter type of property investment vehicles has become very important, surpassing the listed property company market in market cap and number, so there clearly is a need for solid investment performance research. Bond and Mitchell provide such research, and extend the previous findings of Hahn *et al* (2005) by applying the analysis to British funds (IPD data) on periodic returns and controlling for risk. They analyze the performance of 280 unlisted funds between 1981 and 2006, and conclude similar to Hahn *et al* that excess risk-adjusted returns are very rare. Even if such performance is found, it is short lasting and not persistent. Funds delivering top-quartile performance in one period are generally not likely to do the same in subsequent periods. In other words, despite frequent industry claims to the contrary, beating the index is hard for unlisted property funds, just as it is for other investment vehicles.

The final dish on the table is a contribution in the realm of space market modelling. Colin Lizieri, Patric Hendershott, and Bryan MacGregor (of Reading and Aberdeen) have gone fearlessly where many have gone before, and brought back something new and interesting. The London City office market is not only one of the preeminent commercial property markets in the world, it is also perhaps the most data-rich and well-studied such market. But

HLM's model of supply, demand, rents, and occupancy adds important dimensionality to previous models. They study asymmetry in the response of the market parameters, depending on the state of the market (current rent above or below equilibrium) and the direction of the shock in demand or supply (positive or negative). Furthermore, history now allows the authors to include 30 years, two full cycles, worth of data (1977-2006). Check out the results, which provide impressive predictability and interesting asymmetries. Among other findings, negative shocks to employment result in less immediate, but greater long-run drop in rents and a shorter oscillation cycle in a model allowing for asymmetric response. But there is a lot more than that to this study's findings.

We hope you enjoy reading this special issue as much as the conference participants enjoyed the great Limburg hospitality in a deep and dark December!