ERES2015 full paper guidelines – Please read this

Wolfgang Amadeus Eresmüller

Department of Real Estate and Planning, The University of

Erestown, Erescity, Eresland, and

Johann Eresmayer

Another Department in another City

Abstract

**Purpose -** The purpose of this paper is to investigate the relationships between supply and demand in 19 European office markets in the period 1991-2006. It estimates the variations in the price elasticity of supply across the different markets. The paper tests whether developers display evidence or rational expectations in their behaviour.

**Design/methodology/approach -** The paper draws upon a time series of rental, take-up and new completions for 20 European office markets. A static measurement of price elasticity is calculated for each office market. To measure this expected supply response in the empirical analysis, the paper applies an impulse response analysis.

**Findings -** There is an evidence of positive and negative price elasticity. In a significant proportion of cities, supply increases following falls in rental levels. As a result, there is some evidence of myopie behaviour in a proportion of the markets examined, there is little evidence to support the hypothesis that real estate developers systematically display myopie expectations. The diversity in developer responses to price signals is surprising. It is concluded that idiosyncratic rather than systematic factors may dominate supply-side responses to market signals.

**Research limitations/implications** - This paper is essentially exploratory and raises a number of questions for further investigation. There is scope to address the research questions using better data series, in particular, net absorption rates, construction starts, real rental growth rates and different geographical definitions. There is also scope to extend the research to examine the causal factors underlying differences in supply elasticity, for instance, the relative contribution of constraining variables such regulatory restrictions and !imitations in physical capacity. It is also possible to model the supply adjustment process more dynamically in an error-correction framework.

Practical implications - The findings would suggest that the complexity and diversity of economic, institutional and capital market influences affecting European commercial real estate markets seem to be far too numerous for any single model of market or developer behaviour to explain.

**Originality/value** - This is the first paper to examine supply elasticity across a broad range of European office markets.

**Keywords** Supply and demand, Elasticity, Prices, Office buildings, Real estate, Europe

1. Introduction

As a first step it is important to try and quantify recent trends in the provision of real estate education in Europe. A key problem of data exists on what has happened. One route to establishing a picture of provision is to examine the accreditation data held by professional bodies in the sector. In this respect the information provided by the Royal Institution of Chartered Surveyors (RICS) on courses they have accredited across Europe and their student entry numbers provides a very useful information source in developing a profile of provision. Prior to discussing this it is important to note that it provides a far from complete picture of provision in Europe. In particular, it excludes provision in the Nordic Countries many of

which have long standing traditions of real estate education.

It also fails to pick up the provision of specialised real estate electives within wider programmes in business and the built environment. A further problem with the data is that it also includes provision in related areas such as construction. Despite these shortcomings it nevertheless allows a general picture of provision to be constructed, if an incomplete one As compared to a decade ago a number of new potential employer groups have emerged. In particular, the investment vehicle sector is notable in this context in that its explosive growth in recent years has created increased demand for real estate graduates with good finance skills. With the expansion of indirect investment activities new opportunities for real estate graduates have been created with financial and other professional services firms. Again the emphasis is on graduates with good numerical and finance skills. The increasing sophistication of the European real estate market has also created a new range of niche employment opportunities in real estate boutiques specialising in areas such as corporate real estate and portfolio strategies. Likewise, a number of specialised real estate analyst firms have emerged such as IPD which have again created further employment opportunities for real estate graduates with good numerical skills.

Aside from the employer groups outlined above the public sector has been a consistent employer of graduates particularly in the context of expanded urban regeneration related real estate involvements. The discussion has not explicitly included opportunities in residential real estate which has been an important employment generator in many European countries in recent years. The principal reason for this is that the majority of such opportunities are not at a graduate level and require in general a much lower level of real estate skills.

The accreditation activities of professional bodies in the real estate sector are a further important set of drivers which have contributed to the expansion of real estate education provision in Europe. Foremost in this process has been the RICS through its course accreditation activities in Europe. In markets like the UK which has a strong tradition of real estate education it has focused on the accreditation of niche postgraduate courses in top academic institutions in addition to supervising course expansion in more traditional providers. In continental Europe it has played an important role in establishing education provision in countries with little or no tradition of formal real estate education. Likewise, other real estate related professional bodies have played significant roles within their national contexts in creating education capacity. At a pan-European level organisations such as The European Group of Valuers Associations and The European Council of Real Estate Professionals have played important roles in developing a professional basis to real estate education.

As a common backdrop to all these developments the process of European integration has been a further influence. In particular, measures focused on creating a single European labour market and in particular those designed to promote the free movement of service professionals through reciprocity in the recognition of professional qualifications have been important.

Finally, it is important to consider the role of the education providers themselves as participants within this process. Given the above discussion it might be reasonable to view the provider role as one of passively responding to market conditions, employer requirements and the opportunities offered by professional accreditation. However, this maybe an unfair analysis in that many education providers have taken the initiative in shaping programmes and working in equal partners hip with the other stakeholders in expanding provision. Obviously a key incentive has been student demand and with it financial rewards for the institutions involved. Despite this many educators have been almost sub-conscious participants in this expansion and have not been able to provide systematic inputs in shaping the process across Europe and developing a common European real estate education agenda. In some cases provider input has been inhibited by the failure of the education sector and more importantly its regulators to view real estate as a valid area of academic study. The next section considers two important initiatives one-top down and the other bottom-up both of which have the potential to allow educators to reclaim ownership of this process and

become key drivers in shaping its future development.

This section considers the potential offered by two important initiatives for influencing the future shape and direction of real estate education in Europe. The first "The Bologna Process" is currently reshaping the structure of higher education in Europe. The second initiative the European Real Estate Society (ERES) education seminar aims to provide an important platform for constructive engagement between real estate educators in Europe and a mechanism for disseminating best practice.

The "Bologna Process" refers to an agreement made in 1999 among European Union (EU) states - The Bologna Declaration - to make their university degree structures converge towards a common model from 2010. The aims of this agreement were twofold. First, to improve transparency in the education system as a means of facilitating the automatic recognition of university level qualifications across EU member states, and second, to eliminate barriers to professional mobility where a university degree was central to recognition of professional competences. In most respects the Bologna Declaration is a key component of creating a single European labour market. The agreement has had significant implications for the majority of European universities as it has necessitated a full reorganisation of university studies to comply with the requirements of the declaration.

2. XXXX

The key changes made under Bologna have resulted in European universities moving to a common model based largely on the Anglo-Saxon concept of a three level structure of degrees: bachelor, master and doctorate. Within this as a means of promoting student mobility across Europe and also cooperation between institutions a common credit transfer system has been adopted. This, in theory, would allow students to complete their studies across a number of different institutions building credit in each. It would also facilitate the creation of joint degrees between institutions in different parts of Europe. A number of additional principles with respect to degree content have also been established. Degree titles and their contents must be easily recognisable as a means of promoting automatic recognition of qualifications. The degrees provided must exhibit industry and market relevance in terms of the skills provided. In particular, programme core knowledge and competencies must be defined with reference to market needs. A commitment to fostering university level programmes which contribute to life-long learning is also explicit within the process.

offered by professional accreditation. However, this maybe an unfair analysis in that many education providers have taken the initiative in shaping programmes and working in equal partners hip with the other stakeholders in expanding provision. Obviously a key incentive has been student demand and with it financial rewards for the institutions involved. Despite this many educators have been almost sub-conscious participants in this expansion and have not been able to provide systematic inputs in shaping the process across Europe and developing a common European real estate education agenda. In some cases provider input has been inhibited by the failure of the offered by professional accreditation. However, this maybe an unfair analysis in that many education providers have taken the initiative in shaping programmes and working in equal partners hip with the other stakeholders in expanding provision. Obviously a key incentive has been student demand and with it financial rewards for the institutions involved. Despite this many educators have been almost sub-conscious participants in this expansion and have not been able to provide systematic inputs in shaping the process across Europe and developing a common European real estate education agenda. In some cases provider input has been inhibited by the failure of the offered by professional accreditation. However, this maybe an unfair analysis in that many education providers have taken the initiative in shaping programmes and working in equal partners hip with the other stakeholders in expanding provision. Obviously a key incentive has been student demand and with it financial rewards for the institutions involved. Despite this many educators have been almost sub-conscious participants in this expansion and have not been able to provide systematic inputs in shaping the process across Europe and developing a common European real

References

ARES (2008), ARES Education Track, Education Panel II, paper presented at 24th Annual Meeting of the American Real Estate Society, Captiva Island , FL, April.

CBRE (2008), Market View – European Investment H2 2007.

RICS (2007), “University news”, RICS Education and Qualification Standards.

RICS (2008), “RICS accredited courses: higher education courses in land, real estate and construction”, October. Have

Xxxxx