

An inside look at Europe's real estate markets

December 12, 2008

The globalized nature of property markets and a more unified Europe, makes a broader vision of the European real estate market necessary.

In recent years the various markets for each country in Europe have grown increasingly interrelated, and the real estate market is no exception. But the global nature of property markets means that when real estate takes a hit, as it did in 2008, all the markets will feel it and react accordingly.

In his book, [*European Real Estate Markets*](#), [José Luis Suárez](#), professor in IESE's department of financial management, tackles this topic from four angles: He describes the main markets; the risk and return profile of real estate investment; indirect vehicles of investment; and the financial side of real estate activity.

Differences in E.U. housing policies

Despite Europe's greater integration, large social and political differences can still be found in housing markets in terms of the types of dwellings, tenancy systems and government policy. Some countries, such as Denmark, view owning a home as a basic human right, while others, such as Austria, promote renting. There are also large differences in government policies regarding social housing. Nordic countries, such as Sweden and Denmark, provide social housing to 22 and 23 percent of the population, respectively, while Spain covers just 12 percent of its population.

Suárez also notes some trends in European housing policies, beginning with the first systematic policies that emerged after World War II. In some countries, there was a stronger push for home ownership, while in others the focus was more on helping citizens to be housed generally, rather than on acquiring bricks-and-mortar.

Eastern Europe: offices and shops

The book then delves into a discussion of commercial real estate, which, along with renting, offers considerable prospects for institutional investors.

In Eastern Europe, an interesting investment trend has been noted in commercial real estate, which includes assets such as offices, shopping centers and industrial property. While most cities have experienced decreases in yields, investors have turned towards second-level zones or cities of lesser importance (secondary markets) in search of higher yields. An example of this would be the increased investment in office property in Krakow or Katowice, Poland.

Another area that has seen an increase in cross-border investment is shopping centers, with Russia and Poland experiencing the fastest growth of shopping center space in 2006.

Property compared with stocks

In addition to the trends highlighted, Suárez analyzes direct investment in property as an investment alternative to equities, bonds and short-term financial assets. He presents the risk and returns obtained in the various asset classes in recent years, as well as comparing returns on real estate with stocks and bonds for a few long-term series.

The book's closing section discusses financial markets related to the real estate sector, such as the mortgage loan market and the derivatives that have been developed as a result. Suárez illustrates the role of E.U. institutions in integrating European mortgage markets. He also confronts an issue on everyone's mind: the dramatic events directly related to or deriving from the current real estate market slowdown and their ripple effects on international financial markets.

An [interview](#) with IESE Prof. José Luis Suárez is available in Spanish.

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