Management of Construction and Real Estate Under Conditions of Market Instability

MONOGRAPH

Monograph deals with significant theoretical and practical issues on construction and real estate market fluctuations, their determinants and crisis management measures. It discusses real estate markets fluctuations in Lithuania and abroad, their consequences and problem-solving experiences. Significance of construction and real estate market in the economy in emphasised. The monograph is interdisciplinary in nature; studies of the authors can be linked to construction, economics and management fields. Monograph contains a detailed analysis of the construction and real estate market, and the results are relevant not only in the academic context, but significant for all stakeholders of construction and real estate markets. The presented data, the theoretical and practical insights can be useful for real estate appraisers, developers, construction businesses, public authorities, as well as master and PhD students.

Monograph consists of three coherent chapters and aims to analyse fluctuations in different construction and real estate market segments in detail. Furthermore, determinants of crises and consequences as well as possible measures for construction and real estate management under conditions of market instability presented.

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INTRODUCTION

Economic crises are linked to the large-scale prices corrections in markets. Reasons and consequences of these corrections have a lot of similarities from historical perspective. The Great Depression in the third decade of the twentieth century, the Internet bubble, the recent global financial crisis, which started in the real estate sector of the USA, are the results of interactions of many factors. It is said that all crises are similar; however, each crisis has its own particular historical context. Moreover, it should be noticed that crises are influenced by a number of rational and irrational factors, thus reasons of the crises and the consequences need to be holistically considered.

History shows that the growth in real estate prices is not sustainable: sooner or later the prices stabilise, as new buyers are not coming to the market and the demand decreases. Decrease of real estate prices encourages massive sales of assets, as investors hope to regain at least part of the amounts invested, construction business’ expectations become pessimistic, new construction projects are suspended or postponed for the future. After the market downturn recovery period starts, a new increase in prices begins and the cycle repeats again.

The real estate sector plays an important role to the whole economy, especially to the financial sector. For instance, the development of new financial instruments and relatively smooth cycle in late 90’s and early 2000 in Lithuania gave an impression that the construction and real estate market is relatively safe. Unfortunately, the recent crisis demonstrated opposite situation. Capital market did not behave rationally and new financial instruments helped to create a real estate bubble that burst and led to a dramatic economic slowdown.

The recent crisis has shown that complex derivative instruments do not always effectively allocate financial resources, i.e. direct them to investors with the highest return on investment projects and transfer risk to those who can take it. On the other hand, both central banks and governments responded quickly and purposefully to the events in financial markets by providing necessary liquidity and solvency support to financial institutions.

Construction and real estate market downturn, as evidenced by history and experience of the world, is inevitable. Recent economic crisis in construction and real estate sector has set new goals and objectives for market players. There is a need to perform detailed analysis of the situation and look for strategies to make this sector function effectively. There are many crisis management strategies developed in the word, however, successful construction and real estate management strategy must be aligned with a country’s economic, social, political, legal and other environmental conditions. Analysis of construction and real estate market fluctuations and the affecting factors helps to better understand the processes and key determinants of market fluctuations and thus to predict future
market trends as well as implement preventive measures for crisis management.

Investments in real estate can make significant profit for investors and banks financing those projects. However, due to a large scale of projects and specific nature of their cycles, real estate can lead to huge losses and trigger financial and economic crises, for this reason it is very important to have comprehensive information about the market.

This monograph deals with significant theoretical and practical issues on construction and real estate market fluctuations, their determinants and crisis management measures. It discusses real estate markets fluctuations in Lithuania and abroad, their consequences and problem-solving experiences. Significance of construction and real estate market in the economy in emphasised. The monograph is interdisciplinary in nature; studies of the authors can be linked to construction, economics and management fields. Monograph contains a detailed analysis of the construction and real estate market, and the results are relevant not only in the academic context, but significant for all stakeholders of construction and real estate markets. The presented data, the theoretical and practical insights can be useful for real estate appraisers, developers, construction businesses, public authorities, as well as master and PhD students.

Monograph consists of three coherent chapters and aims to analyse fluctuations in different construction and real estate market segments in detail. Furthermore, determinants of crises and consequences as well as possible measures for construction and real estate management under conditions of market instability presented.

Chapter 1 aims to reveal the construction and real estate market characteristics and the causes of market fluctuations. It provides comprehensive real estate concept, distinguishes real estate market characteristics, and highlights the importance of the real estate market to development of economy. Basing on empirical research results, provided by scientists from Lithuania and abroad, detailed analysis of the construction and real estate market cycles, their indicators presented. An overview of the classical theories on the formation of prices bubbles, their types, determining factors and impacts on various economies, discussed. Furthermore, fiscal and monetary policy measures used to manage crises in the various countries as well as models for construction and real estate crisis management considered. Detail analysis of data provided by State Enterprise Centre of Registers, Lithuanian Department of Statistics and the EU Statistical Office (Eurostat) is performed, development and fluctuations of Lithuania’s construction and real estate market reviewed, main affecting factors discussed.

Chapter 2 deals with the land market and its regulatory influence on the construction and real estate market. Analysis of land market characteristics, determinants of land supply and demand, agricultural land management issues provided. On the basis of experience of foreign countries, the influence of land
market regulatory solutions to the market in general as well as to real estate prices discussed. Detailed analysis of Lithuania’s land market development, regulatory context, land reform and the major problems of its implementation provided. Land planning and management system, legal environment in Lithuania presented and abilities to use current system for construction and real estate management discussed.

Due to the fact that high-quality housing at an affordable price in a safe place is a basic human need and right, Chapter 3 of the monograph focuses on residential real estate market analysis. Characteristics of the residential real estate market are investigated, influence to the economy, supply and demand affecting factors considered. Basing on empirical research results provided by scientists from Lithuania and abroad, housing policy models in different countries analysed, the determinants of housing market fluctuations considered, the housing affordability and sustainability indicators analysed. Using the data of the European Union’s Statistical Office (Eurostat), the State Enterprise Centre of Registers, Lithuanian Department of Statistics, detailed analysis of the housing in the European Union countries and Lithuania performed. Furthermore, multiple criteria assessment methods used in order to assess sustainability of Lithuania’s housing market in comparison to other European countries.

This monograph is the result of joint investigations of scientists from Vilnius Gediminas Technical University and specialists from the State Enterprise Centre of Registers.

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