

Real Estate Investment Risks and Returns in Central and Eastern Europe

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Research question

How important is country risk in international real estate investment?

Purpose

- ✓ To study the impact of country risk on international property investment returns
- ✓ To consider the relative importance of country, sector and region specific factors that determine real estate returns, as well as country risk vs. property specific risk
- ✓ To investigate if and how the impact of country risk on returns has changed after the crisis
- ✓ To explore specific real estate market risks in CEE

Motivation or why risks?

- ✓ Increased perception of risk and a change towards more cautious and selective investment strategies in countries that were deemed among the most attractive property markets before the crisis
- ✓ Substantial uncertainty and foreignness of international investment; existence of specific real estate market risks inherent in different countries
- ✓ Necessity to understand the impact of different types of risks on real estate returns

Why the CEE region?

- ✓ Real estate markets at different maturity stages
- ✓ EU and non-EU member-states, including new EU members
- ✓ Many emerging markets: most real estate markets under consideration did not exist some 20 years ago
- ✓ Few studies on the region



Structure

- ✓ Discussion on the types and elements of risks inherent in international real estate investment
- ✓ Discussion on the relationship between risk and return
- ✓ Empirical estimation of the impact of country risk on real estate returns; comparison to other factors that determine real estate returns

Methodology

- ✓ Literature review
- ✓ Quantitative methods: regression analysis

Previous research on CEE

Limited number of studies that have analyzed CEE real estate markets.

Previous studies have focused mainly on three major topics:

- ✓ the evolution of real estate market in CEE (Ghanbari 2003, Watkins and Merrill 2003)
- ✓ the perception of property markets in CEE with a main focus on the constraints (McGreal et al. 2001)
- ✓ the impacts of globalization on CEE property markets (Ghanbari Parsa 1997, Drbohlav and Sykora 1997, Yeung 1998, Adair et al 1999, Keivani et al. 2000).

Previous research on country risks

- ✓ Very few studies have investigated real estate risks at a macro level and even less for emerging countries.
- ✓ Empirical papers have mainly focused on U.S. (Sivitanidou and Sivitanides 1996 and 1999; Sivitanides et al. 2001) or developed European markets (Bond, Karolyi and Sanders, 2003, Lee 2006).

Possible constraints for research

- ✓ Data availability: lack of reliable data in terms of quantity and quality
- ✓ Low frequency and short time series data