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Real Estate “Cycles”: Some Fundamentals

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Abstract

This paper demonstrates that different types of real estate can have very different cyclic properties. Empirically, it is shown that they do, and the question is posed as to what might distinguish between property markets where movements are largely stable responses to repeated economic shocks and those undergoing a continuing endogenous oscillation. A stock-flow model is built in which the future expectations of agents, the development lag, the degree of durability and market elasticities all can vary. Experiments reveal the dynamic behavior of the model varies quite sharply with all these factors. Forward forecasting by agents leads to stability, while myopic behavior promotes oscillations. Oscillations are also much more likely when supply is more elastic than demand, development lags are long, and asset durability is low.

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Citing Literature

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