

## Commercial real estate post-recession: what have we learned?

Virtually nothing changes everything, but some events have systemic impacts that establish a “new normal.” The global recession triggered a decade ago had a sizable portion of its roots in real estate financial and property markets. Inextricably entangled, activities in these two markets created a perfect storm of irrational exuberance and hubris, both built on foundations of ignorance. The result was a self-perpetuating vicious cycle of overreach. Rising “market values” created, fueled, and supported by loan originators transferring poorly understood risk to others via mortgage portfolios stoked the fires of this cycle. Repeated many times, with each round creating the illusion of increasing property values providing collateral for even more loans, this cycle gained momentum. Not surprisingly, this entire episode did not end well – to say the least.

The systemic elements of this dynamic were tightly coupled and brittle, so when cracks appeared in the façade of this system in the form of loan defaults, they quickly spread throughout the system, turning what was once viewed as a virtuous cycle into a vicious one. The ensuing collapse was fast moving and complete. Little time elapsed before the now vicious cycle devastated borrowers, lenders, underwriters, investment bankers, mortgage investors, and property owners. In the end, it almost destroyed the entire financial system in the USA and threatened global financial markets. In the aftermath, those in academic and professional real estate were left asking many questions around the themes of what happened, how did it happen, why did not more people see it coming, and how can such events be avoided in the future. There was also a sense of déjà vu, as this was not the first time real estate property and financial markets, and the practices related to them, had been at the center of a major economic collapse.

So, if everything has not changed, what has changed as a result of the great recession? Have institutional arrangements, expectations, relative risk preferences, financial decision making, asset valuation and pricing, regulatory policies and frameworks, and/or other elements of the real estate system changed and, if so, in what ways? A common complaint about real estate is that lessons either are not learned or such learning and related best evidence are not widely circulated, especially between the academic and practicing professional camps. One reason for this complaint is that such research, whether developed by the academic or professional community, appears episodically over an extended period of time in scattered sources and its collective impact is diminished. In order to address these questions and concerns, the next two issues of the *Journal of Property Investment and Finance* provide a collection of papers in one place and at one point in time addressing the great recession and its impacts.

Given that roughly a decade has passed since the start of the recession, these special issues of the *Journal of Property Investment and Finance* are timely. Enough time has elapsed to allow a clearer line of sight and a more thoughtful and balanced perspective with regard to real estate and its interaction with the recession. This is not to say that all possible lessons have been identified and articulated nor that the “new normal” has been fully developed and understood. However, as the research in these issues demonstrates, progress is being made.

For these special issues to be impactful, they must initiate a conversation that includes academicians and practicing professionals. These inclusive conversations and debates will provide a collaborative and cooperative framework that promotes rigorous and relevant research. Such research will, in turn, maximize the likelihood that evidence-based lessons



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concerning the past, descriptions of the present, and frameworks for thinking about the future are incorporated into decision making. Expanding problem framing and decision making using such best evidence is the surest route to the efficient and effective use of valuable real estate resources.

We hope that the research in these pages stimulates your thinking. Additionally, we hope that these special issues of the *Journal of Property Investment and Finance* will motivate you to join the conversation whether you agree or disagree with any particular viewpoints and whether you are an academician or a practicing professional. These special issues are just a start. There is much more work to be done in the form of rigorous and relevant research. Too much is at stake to not be attentive.

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