Editorial

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The National University of Singapore hosted the first Singapore—Hong Kong Real Estate Research Symposium in 2003 and later by The University of Hong Kong in alternate years. Since 2007, the Symposium has evolved to include two more organizers, namely Tsinghua University and the University of Southern California. This is the first time the Symposium held in Beijing, hosted by the Institute of Real Estate Studies of the Tsinghua University. We are grateful for the input and effort by hosting organization to make this research intensive symposium an enjoyable event for all participants.

In this special issue, we have selected six papers after vigorous debate during the symposium and revisions and reviews after the symposium:

There has been sea of change in the securitization landscape since the collapse of the global financial market triggered by the subprime mortgage crisis in the United States. While the industry is expecting a massive overhaul of the regulation that will rewrite the economics of securitization for real estate assets and financial assets, such as REITs and MBS, three papers in this special issue address this timely topic. Hua Sun's paper proposes a theoretical model which examines the power of monitoring and forcing contract on improving REITs managerial efficiency, and its implication regarding the choice of advisor type used by REITs. The paper by Yuan Wei Zhu, Seow Eng Ong, and Wee Yong Yeo empirically addresses two questions—Is there earnings management in the REIT industry around seasoned equity offerings; and

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how is REITs earnings management affected by financial and governance factors? Finally, Feng, Ghosh, He & Sirmans investigate the relationship between institutional ownership and CEO compensation structure of REITs. They find that that large institutions influence governance through CEO compensation. The results suggest that institutional owners do act as monitors in REITs and that institutional investors set a high pay-performance sensitivity for CEOs, but are willing to pay higher cash compensation to induce managers to take risk. These three papers will provide us a better understanding of the governance of the securitization of the real estate market and REITs industry.

The land and secondary housing markets are separate and yet closed related markets. Chau et al examined whether public land transactions convey any new information to the secondary real estate market using Hong Kong data. Their study suggests that unexpected land auction outcomes are not interpreted by the market as random events but carry information that impact the second-hand real estate market. They found lower than expected land auction prices (or bad news) have both market-wide and local negative impact on secondary housing prices. However, the impact of higher than expected land auction prices (or good news) on secondary housing prices is insignificant.

There has been very little empirical study on the hotel investment. Zhang and Deng presented some very interesting findings on behavior of listed hotel securities in the US market in their paper “Is the Mean Return of Hotel Real Estate Stocks Apt to Overreact to Past Performance?” They found evidence of predictability of future hotel stock returns by past returns and earnings, trading volume and firm size. They also found that investment strategies of large hotels played a significant role in explaining the differences in the pattern of large and small hotel stocks returns.

In a country with relatively high incidence of earthquakes such as Japan, the percentage of population who protect the risk of losses from earthquake with insurance is amazingly low. The puzzling phenomenon is explained by Naoi, Seko and Sumita in their paper “Community Rating, Cross Subsidies and Underinsurance: Why So Many Households in Japan Do Not Purchase Earthquake Insurance”. They show that the Japanese government, as the ultimate underwriter of earthquake insurance, has set insurance premiums using very coarse geographical earthquake risk data resulting in premiums higher than actuarial premiums in low risk areas. Their simulation results suggest that insurance subscription rates can increase by 3.7 percentage point by using more accurate geographical earthquake risk data.