Guest Editorial—German Journal of Real Estate Research: Special Issue Risk

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Various issues associated with risk management in the real estate sector have been a concern in the industry for several decades. Originally, the approaches entailed simple scoring models and essentially qualitative estimates, and now, increasingly quantitative approaches against the background of ever-increasing data availability which ought to enhance the ability to identify potential dangers. At first glance, the current record turnover and all-time highs suggest a pervasively positive picture. However, long-serving market participants are well aware that the classic real estate cycle is still with us and that the next downturn is “merely” a matter of timing.

The risks associated with property investments are complex and dynamic. In contrast to the ongoing expectations of the last few years, interest rate risks will probably not trigger the next downturn. They can realistically be assumed to stabilize at the current low level in the short and medium terms. By contrast, political and economic risks becoming the centre of attention. So far, the potentially negative economic consequences of the Brexit, US-Chinese trade conflicts and other general tendencies towards national protection (e.g. tightening up on migration) have been moderated by stable economic fundamentals. However, shrinking manufacturing volumes, declining GDP growth rates and negative economic expectation indices, especially in Europe and China, are signals that the abovementioned challenges might move in the centre of attention in the near future. Additionally, US yield curves are currently inverting, a factor which has regularly indicated ensuing recessions (except for 1965/66). Thus, with regard to property investments, attention is shifting from the financing risks to the actual operating income of the assets.

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In general, the following is evident: For our industry, risk management is one of the hot topics in the current market environment. Yet, there is a shortage of work which is methodologically sound and state-of-the-art, and deals with both the opportunities and limits of quantitative, real-estate-related risk management. This collection of articles contributes to closing the gap. Methods and approaches are tested for their applicability to the asset class of real estate, and in addition, practically relevant, viable, and above all, scientifically well-founded answers are provided for overcoming the prevailing challenges.

Given the dynamics outlined above, market participants are extremely interested in interacting with researchers to improve models for the risk management of real estate investments. Technological developments and increased data availability not only provide opportunities for new approaches in real estate risk management, but also put pressure on existing and potentially outdated business models and investment products. A tangible shift towards quantitative modelling can be observed, since the increase in transparency offers new possibilities for replacing qualitative approaches. We very much welcome and appreciate this development in the industry.

This special issue of the *ZIO* is intended to reflect the abovementioned market developments in real estate. The first paper in the issue addresses fundamental quantitative modelling aspects. The ensuing articles focus on loan volatility, currency-risk hedging and energy price risks. Thus, the issue offers a comprehensive picture for a broad readership. All papers should improve our understanding of the complex nature of risk management in real estate, and we are proud to provide them. Further research in the highly dynamic field of risk management, especially for the methodologically challenging asset class of real estate, is demanding but also very promising. We urge our colleagues to dedicate future research to this area, and wish you an interesting and rewarding read of this special issue.

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