

Misbehaving of Markets and the FIG-Goal of Transparency on Real Estate Markets

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SUMMARY

The mandate of FIG Commission 9, focusing on enhancing transparency in real estate markets from 2022 to 2026, involves developing a clear and precise definition of "transparency in the real estate market." This paper explores the necessity for a comprehensive definition that encompasses both economic and behavioural factors. Furthermore, it addresses the assessment of real estate market behaviour in relation to disasters and preventive measures.

The traditional economic assumption that markets operate solely based on rational decisions by participants is increasingly being scrutinised. Since the 1970s, behavioural economic research, notably by Daniel Kahneman and Amos Tversky, has demonstrated that market participants are frequently influenced by cognitive biases and emotions, resulting in irrational decisions. This insight explains many unforeseen developments, or what can be termed as the "misbehaviour" of real estate markets. Consequently, the impacts of disasters and disaster-prevention measures on real estate markets are not adequately assessed.

Therefore, a precise definition of market transparency is imperative. Unpredictable markets can only be evaluated effectively with reliable data, not with inaccurate or poorly fitting theoretical models.

In this context, transparency refers to the free flow of high-quality information that enables all market participants to make informed decisions. It also assists the state in making appropriate decisions, such as promoting initiatives or making strategic investments. Key components of market transparency include the availability and quality of raw data, aggregated data, as well as valuations and appraisals. These data must be current, detailed, and standardised to facilitate a fair and comprehensible assessment of the

market.

Additionally, the lecture underscores the significance of data-driven and effective management and planning of real estate and land. Securing land rights for women, youth, vulnerable communities, indigenous peoples, and informal settlers is as crucial as managing state and public properties to achieve environmental objectives and support vulnerable groups. This requires comprehensive information about the real estate market, and the importance of cooperation and partnerships cannot be overstated.

In conclusion, this lecture aims to underscore the importance of transparency in real estate markets and the necessity for a novel, comprehensive definition. The integration of empirical data and behavioural economic insights into valuation and decision-making models is intended to enhance market transparency and support informed political and economic decisions. This paper serves as a foundation for further discussion and the development of practical solutions to improve market transparency and foster climate-resilient valuation and management of real estate.

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