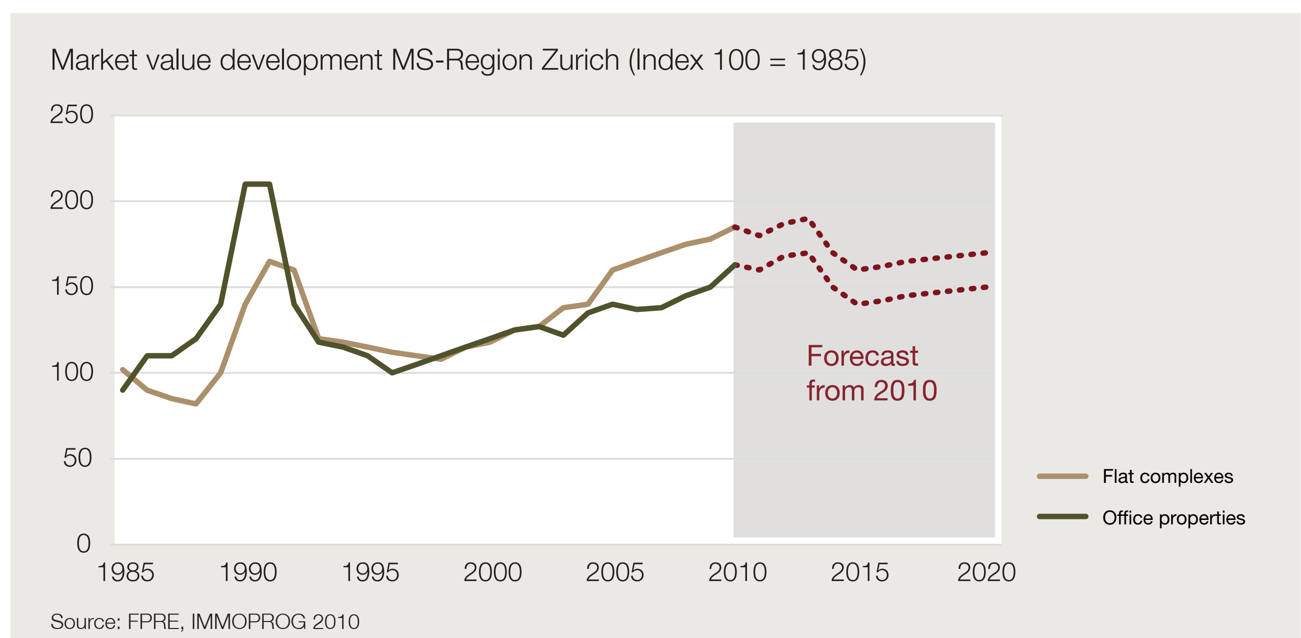
## **No. 4:** The real estate market is more efficient than you would think

Economists have been analysing the ability of investment experts to forecast for over 100 years now and virtually always come to the same conclusion: the majority of forecasts are wrong. The most well-known analysis in the real estate sector comes from David Ling (2005), who evaluated 150 market reports for the United States and found that it would have been better to do the opposite of their recommendations.

There has not been a similar study for Switzerland. In its place, here is the forecast price development for office buildings and flat complexes by Fahrländer Partner from 2010, illustrating the trends back then.




It may sound paradoxical but it is logical. The real estate market is astonishingly efficient precisely because a vast number of market stakeholders assume that it is inefficient and therefore try to 'beat' the market. Unlike with shares, any real estate investor is getting involved in an 'active gamble' as a passive (index-oriented) investment is impossible. Investors also attempt less to capitalise on short-term market turbulence due to the high transaction costs.

Widely discussed trends such as demographic change, self-driving cars and fossil fuel scarcity are therefore reflected in the prices. As a result there are no investments that are obviously good or bad. Properties considered attractive and appealing are expensive, producing a low return. Conversely, 'star performers' are also relatively easy to identify even without market reports: structurally weak, peripheral locations; energy guzzlers, musty laundry rooms and a sea of TV antennae. There is a price for everything. So far no one has succeeded in predicting the length of real estate market cycles. Markets are volatile, not cyclical, and that applies to real estate markets, too. Anything else is, at best, marketing.

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