Global financial crisis the effect on real estate investment literature review ex...

[Business](), [Marketing]()

Literature Review:

The Global Financial Crisis took over the global economy in July 2007 due to the credit crunch, particularly when US investors lost confidence in the value of sub-prime mortgages thereby causing a liquidity crisis. As a result, the US FEDERAL BANK invested large amounts of funds into financial markets. The crisis had worsened by September 2008 with global stock markets crashing and becoming extremely volatile (Eves, 2010). The housing sector of the US saw majority of home owners, who had drawn out sub-prime loans, unable to make their mortgage repayments. With values of homes dropping sharply, the borrowers were left with negative equity. Even though the housing sector crisis in the US has known to trigger the worldwide financial collapse, few experts who have been studying the consequences for several years, and even the politicians in the United States for that matter, tend to believe that " the financial system was needed better regulation to discourage unscrupulous lending" (Cansar, 2009). As quoted by the Australian Bureau of Statistics (2010), " The dislocation spread through credit markets over the second half of 2007 as concerns intensified about the value of mortgage-backed securities and other asset-backed securities". In other words, low-risk securities, as seen by investors, were under-rated drastically since assets associated with them experienced tremendous losses. Therefore, these issues made financial institutions more reluctant in lending loans to one another and to collect their monetary belongings. This scenario resulted into a sharp rise in interest rates in currency as well as credit markets alike. Moreover, this also affected the equity markets in no time, with rates remaining high until later part of the year, with decline in bank share costs.

The following figure gives an estimate of the real estate dividend yield. Seen by investors as a pariah in line with the GFC, real estate has sprung back in favour with pension, insurance, and sovereign wealth funds (International Financing Review, 2012).

Irrespective of substantial discounts on development, house builders have painstakingly tried to secure sales since they cannot effectively compete with the reduction in process in the greatly ailing resale market. As much as one-third of real estate sales in the United States now include foreclosure which is a sign of prolonged market weakness, although foreclosures are currently a dominant feature of restricted market actions that they are greatly being used as the standard for establishing market value. Nonetheless, baseline anticipations suggest that the housing sector in the United States will finally settle down in 2009 following post four years of downfall. However, September 14, 2008 became the onset of a new phase in GFC marked by the collapse of the Lehman Brothers. During this time, governments across the globe made efforts in rescuing huge financial establishments due to the worsening situations in housing and stock crisis. The Australian government declared an introductory stimulus packages with a goal to restart the degrading economy. According to the website www. canstar. com (2009), the U. S. government announced a $700 billion recovery plan that later failed to pass due to oppositions from some members of US Congress who denied the use of such a huge amount of taxpayer funds being spent for rescuing Wall Street investment bankers. Subsequently, during September and October 2008, people chose to make heavy investments in gold, bonds and US dollar or Euros since it became a safer option to the troubled stock or housing industry. In January 2009, President Obama declared federal expenditure of approximately $1 trillion for improving the plight of the financial crunch. This recovery plan was followed by the Australian government proposing another stimulus package that pledged to offer cash distributions to tax payers, and make more investments on long-term infrastructure projects. The following schematic summarizes some of the causes behind the housing bubble that peaked in 2006. The housing bubble set the stage for the sub-prime mortgage crisis. Many of these elements gave complex interactions, but not shown.

The figure above illustrates the ripple of domino effect across the financial and housing markets as home prices declined.

References List:

Australian Bureau of Statistics, 2010. The Global Financial Crisis and its Impact on Australia. [Online] Available at: [Accessed 28 September 2012].

Canstar, 2009. Global Financial crises- what caused it and how the world responded. [Online]

Available at: http://www. canstar. com. au/global-financial-crisis/> [Accessed 28 September 2012].

Eves, C., 2010. REVIEWING THE IMPACT OF THE 2008/2009 GLOBAL FINANCIAL CRISIS (GFC) ON INTERNATIONAL PROPERTY MARKETS AND PROPERTY GFC) ON INTERNATIONAL PROPERTY MARKETS AND PROPERTY. [Online]

Available at: [Accessed 28 September 2012].

International Financing Review, 2012. Real estate bouncing back from investor pariah status. [Online] Available at [Accessed 1 October 2012]