

Testing the Linkages between Real Estate Markets and Stock Markets in European Countries

Gökçe Tunç¹, Berna Aydoğan², Gülin Vardar³

Abstract

This paper examines the existence of long-run and short-run dynamic integration between the real estate markets and stock markets over the period 1999-2015 in selected 16 European countries, with the particular attention to the Global financial crisis. Extending related empirical studies, comparative analyses of pre-crisis and post-crisis periods are conducted to comprehensively assess how real estate and stock market integration is affected by financial crises. Employing panel cointegration test, the results display that the markets are considered as integrated in pre-crisis period. However, the findings also suggest that the 2008 global financial crisis significantly decreased the level of integration between the real estate and the stock markets. More pronounced segmentation in those countries would result in increasing portfolio diversification benefits in an investment environment. The panel causality test results indicate the existence of bidirectional relationship between the stock market and real estate market. The empirical findings have policy implications for managing property assets fund managers, for the pricing efficiency within the real estate market, and for policy makers regarding economic safety.

Keywords: Real Estate Markets, Stock Markets, Cointegration

JEL Codes: F21, G11, G15

1 **Corresponding Author** Okan University, Istanbul, Turkey, gokce.tunc@okan.edu.tr

2 Izmir University of Economics, Izmir, Turkey, berna.okan@ieu.edu.tr

3 Izmir University of Economics, Izmir, Turkey, gulin.karasulu@ieu.edu.tr