



RIGA TECHNICAL
UNIVERSITY

CHANGES IN AGGREGATE SUPPLY AND DEMAND AND DEVELOPMENT OF THE REAL ESTATE MARKET

Scientific Problems of Engineering Economics of Construction and Real Estate Management,
Regional and Territorial Development

Section in the annual 62nd International Scientific Conference of Riga Technical University

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Topicality

Topicality of the research is – the situation within real estate market is changing, fluctuations and changes in different sectors of real estate market can be regularly observed, which drives the necessity regularly to analyse changes in aggregate supply and aggregate demand.

These changes influence the volumes of international investments and thus, the development of real estate market on local and international level.

Aim

- The aim of the research is to analyse *the influence of existing situation and changes in aggregate supply and aggregate demand of real estate* on **international investments and on the development of real estate market**, *thus analysing its possible influence on local and international investors*, by providing different examples.
- Literature and statistical analysis, logical access and comparative analysis methods have been used in the research.

- According to Kulikov, 2005, the market is an integral system of stable, constantly reproducible and repetitive connections of various types (production, trade, technological, etc.) between its members, implemented in the form of mechanisms of ***demand, supply***, cost, pricing, commodity-monetary relations and other elements of the sphere of the circulation of goods.

Changes in aggregate supply and aggregate demand

Shifts of the Aggregate Demand Curve

Factors That Shift the Aggregate Demand Curve

Expansionary monetary policy

M^s AD curve shifts to the right

Expansionary fiscal policy

G AD curve shifts to the right

T AD curve shifts to the right

Contractionary monetary policy

M^s AD curve shifts to the left

Contractionary fiscal policy

G AD curve shifts to the left

T AD curve shifts to the left

Shifts of the Aggregate Supply Curve

Factors That Shift the Aggregate Supply Curve

Shifts to the Right

Increases in Aggregate Supply

- **Lower costs**
 - lower input prices
 - lower wage rates
- **Economic growth**
 - more capital
 - more labor
 - technological change
- **Public policy**
 - supply-side policies
 - tax cuts
 - deregulation
- **Good weather**

Shifts to the Left

Decreases in Aggregate Supply

- **Higher costs**
 - higher input prices
 - higher wage rates
- **Stagnation**
 - capital deterioration
- **Public policy**
 - waste and inefficiency
 - over-regulation
- **Bad weather, natural disasters, destruction from wars**

▪ **Aggregate demand, aggregate demand and economics**

When prices are partially rigid, aggregate demand influences unemployment as follows:

- **higher aggregate demand raises product market tightness in equilibrium;**
- **this rise increases the probability that firms find customers, reduces idle time for firms' employees, and thus increases labor demand;**
- **finally, higher labor demand raises labor market tightness and reduces unemployment in equilibrium (Source: Pascal Michailat Emmanuel Saez, (2008))**

Real Estate

EUROPE

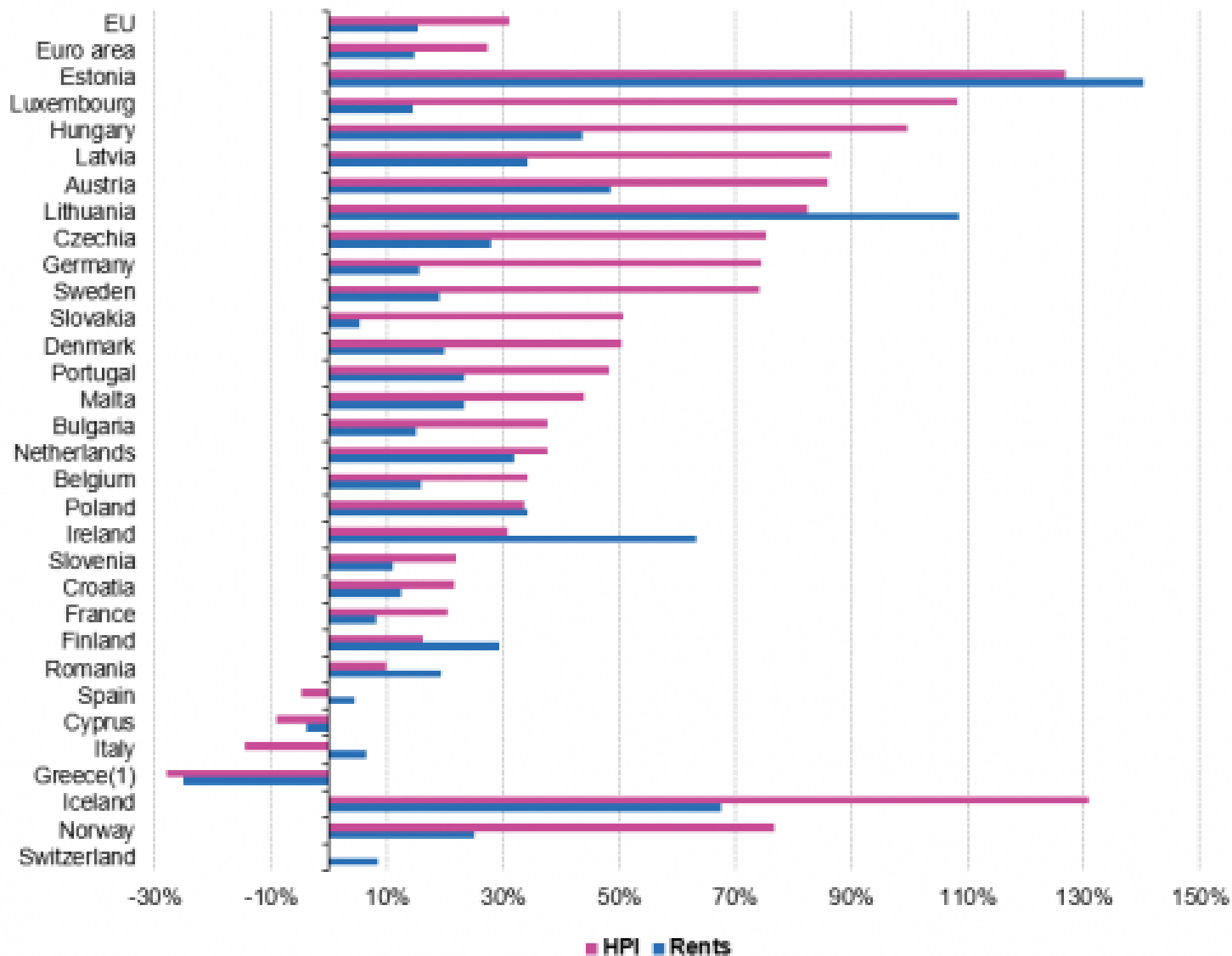
4.6% Y-O-Y

The European real estate market has seen several years of strong growth. In fact, since early 2016, house prices in the EU have risen by 4.6% year-on-year on average, outperforming wages and GDP growth. This upward trend has been widespread across countries and also large cities

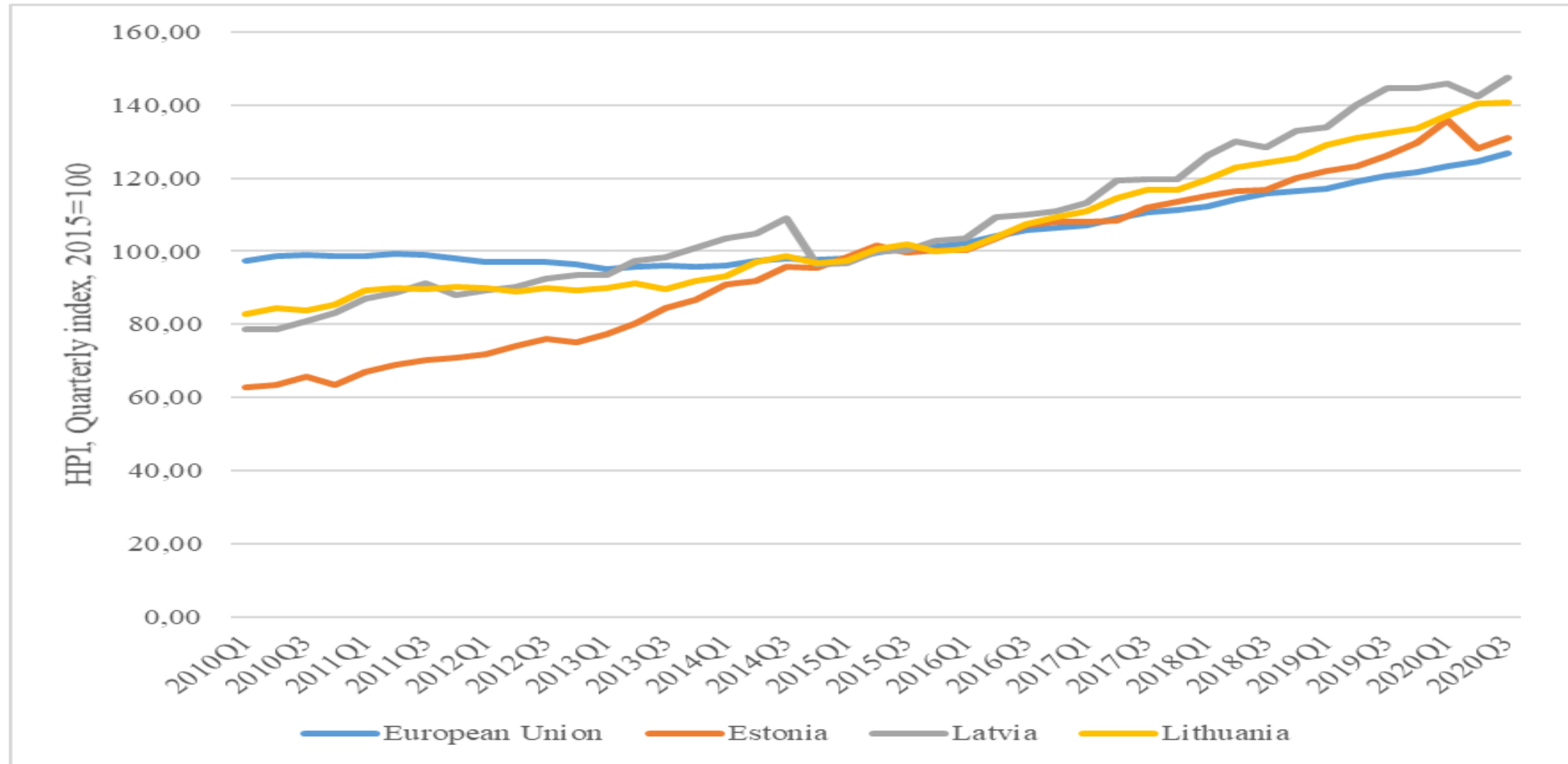
SOURCE : <https://www.caixabankresearch.com>

ANNUAL PERCENT CHANGE ON HOUSE & RENT PRICES (COUNTRYWISE)

House prices and rents – Changes between 2010 and 2021Q1 (%)



Baltic states becoming the First priority for investments in Europe



HPI (Data: Eurostat, data retrieved 24.03.2021, developed by the authors)

Real estate market of Canada and India in the times of pandemics

A CONTRASTING DECADE

CANADA

- **RBC Urges Measures to Cool Canada's 'Overheating' Housing Market**

- **Bank joins chorus warning that prices are getting out of hand**

- **Government should revisit capital gains exemption: economist**

Source :

<https://www.bloomberg.com/news/articles/2021-03-24/canada-s-biggest-bank-says-the-housing-market-is-overheating>

INDIA

- **Realty set to look up after years of hiatus; try & catch them young**

- **Sebi approval to the Real Estate Investment Trust (REIT) platform**

- **post pandemic migration**

- **pay hikes**

- **low Interest rates**

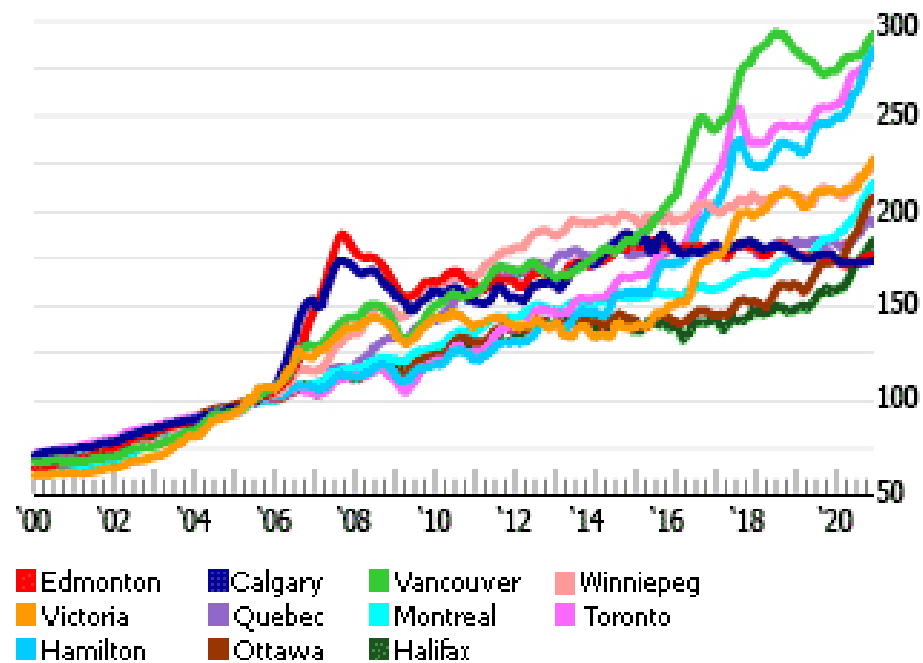
Source :

<https://economictimes.indiatimes.com/markets/stocks/news/realty-set-to-look-up-after-years-of-hiatus-try-catch-them-ms>

A CONTRASTING DECADE

CANADA

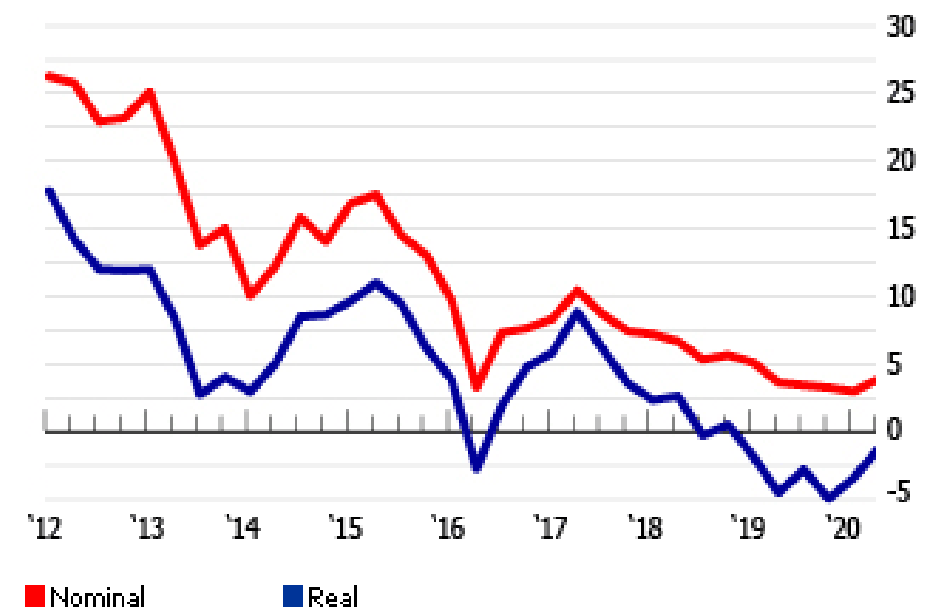
House Price Index



Source: Teranet – National Bank of Canada, GPG

INDIA

RBI All-India House Price Index, Annual Change (%)



Source: Reserve Bank of India, Global Property Guide

A CONTRASTING DECADE

CANADA

- Low Interest Rates
- Huge Migration
- Focused on decreasing the demand than increasing the supply

CAUSE



INDIA

- Unattractive/Negative ROI
- Stagnant Job Market
- Excessive Supply
- Unfavourable Loan-to-value Ratio

A CONTRASTING DECADE

CANADA

AGGREGATE DEMAND

Increasing population
low Interest Rates
increase pay roles

AGGREGATE SUPPLY

Increase in cost of
construction
Less workforce available
No Govt. Initiatives

CAUSE

INDIA

AGGREGATE DEMAND

Huge Inventory Capital
high taxations for buyers
Decreasing pay roles
Alternative Investments

AGGREGATE SUPPLY

Increase in cost of construction
loans and Incentives to builders
Huge workforce for cheap prices

The global economy

«The global economy is projected to grow 6.0 percent in 2021 and 4.9 percent in 2022» (Fault Lines Widen in the Global Recovery, World Economic Outlook, July 2021).

Conclusions

FACTORS AFFECTING REAL ESTATE IN THE BALTIC REGIONS OF EUROPE THERE BY MAKING IT FAVORABLE FOR INVESTORS

- Untapped Availability of Resources for Businesses
- Exemptions in taxations and ease of business
- Easy migration of People
- Technological Advancement

- Balance in the development of the real estate market could create a favourable situation for the market participants, investors.

Thank you for your attention!