DISCUSSION

There's No Place Like Home: Information Asymmetries, Local Asset Concentration, and Portfolio Returns

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US property-level data set (SNL) for 100+ listed REITs

Return difference for high concentration in home market: 5.2% per annum

Information advantage of managers in their home market:
- Risk-adjusted returns
- Fama-MacBeth approach
- Alternative concentration measures
- Segmentation:
  - Land share
  - Foreign buyers’ share
  - Broker usage
- External validation: Loan-level data
CONCENTRATION RISK
Identification challenge

Concentration risk is not priced in REIT returns

Possible explanations:

1. Measurement issues
   - Geographic concentration is just a proxy for cash flow exposure to correlated shocks
   - How good of a proxy is it?

2. Market inefficiencies
1. Measuring concentration risk

Metropolitan areas
(Commercial real estate. Deals above $10mil.)
1. Measuring concentration risk

Price correlation across metropolitan areas
(net of aggregate price changes)
Sanity check: Does distance matter?
1. Measuring Concentration Risk

Suggestion:
Alternative *price-based* concentration measure.
2. Market Inefficiencies

Two manifestations of inefficiency

- Concentration risk is not priced
- Manager ability is not priced
  - Surprising! Property location information is publicly observable.

- Market frictions:
  - Illiquidity
  - Investor inattention (‘All that glitters’)
  - etc.
2. Market inefficiencies

Suggestion:

Alternative sub-sample analysis.

- Market-level variables
  - Liquidity/Turnover
  - Listing timing
  - Inclusion in index

- Firm-level characteristics
  - Analyst coverage
  - Media coverage
  - Ownership structure
  - Size, etc.
IDENTIFICATION
REITs are often specialized (geography/market segment)

How much does time-series variation contribute to the result?

**Suggestion:**
Calculate returns for constant-allocation portfolios

Footnote 26: Exploiting M&A activity
INTERPRETATION
Evidence from loan-level data

*(Very impressive!)*

- Exclusion restriction? (Cost of debt)
- Suggestion: Include credit spread as additional regressor
- Evidence for *information asymmetry* between debt originator and investor?
  - Re-visiting the time series identification approach
Endogenous location decisions by firms

- Are firms transacting outside their home market irrational?
- No compensation for information disadvantage?

- A stubborn puzzle:
  - Agarwal, Sing and Wang (2017)
THANK YOU!