New Methods in Valuing Private Assets

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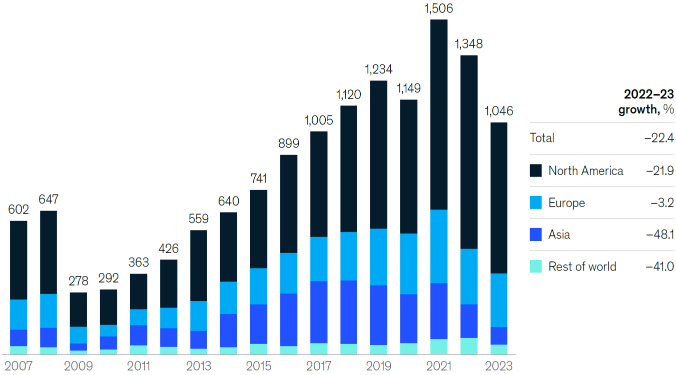
Motivation: The Great Rotation

- Last 25 years witnessed large migration of risk from public to private markets
  - Publicly listed stocks: 8,000 in 1997 down to 4,000 in 2023
  - Private AUM: $13 trillion in 2023, 2x since 2013, 2x over 2023–29



Annual fundraising. Source: McKinsey Global Private Markets Review 2024

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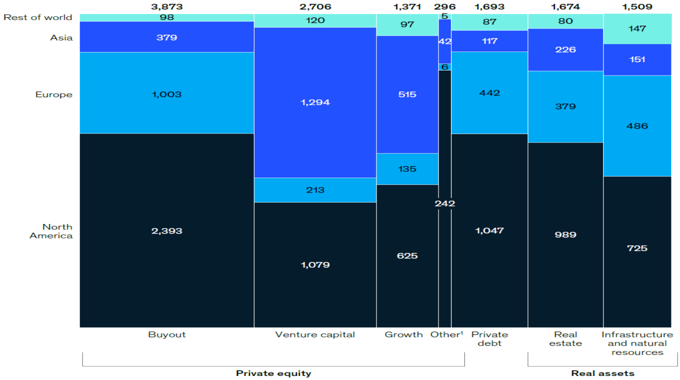
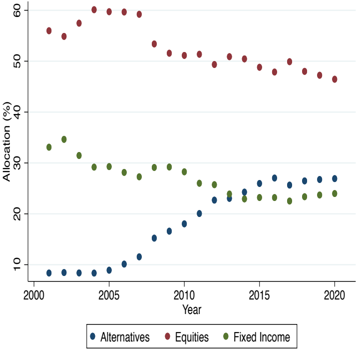
  - Private AUM: $13 trillion in 2023, 2x since 2013, 2x over 2023–29
  - Recent increase in private credit amplify this trend

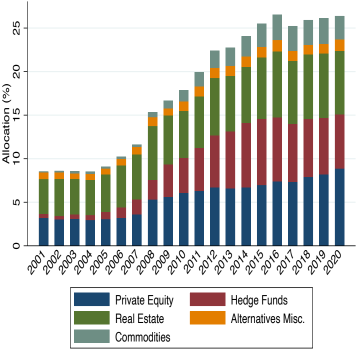


Private AUM June 2023. Source: McKinsey Global Private Markets Review 2024

Motivation: The Great Rotation

- Last 25 years witnessed large migration of risk from public to private markets
- Pension funds allocate 25-30% to private and real assets, rotated out of public equity and fixed income





Public pension portfolios. Source: Mittal (2023)

Motivation: The Great Rotation

- Last 25 years witnessed large migration of risk from public to private markets

- Pension funds allocate 25-30% to private and real assets, rotated out of public equity and fixed income

- Private and real assets are special
  1. Traded infrequently, often in bilateral search and matching markets
     $\Rightarrow$ no frequent prices, only cash flows
     $\Rightarrow$ challenging for risk management; scope for "volatility laundering"
  2. Lumpy
  3. Unique features (e.g., location); hence heterogeneity across assets
  4. Ecosystem of specialized investors

Motivation: The Great Rotation

- Last 25 years witnessed large migration of risk from public to private markets
- Pension funds allocate 25-30% to private and real assets, rotated out of public equity and fixed income
- Private and real assets are special
- **Next frontier for asset pricing!**
  - Contributions in special issue of RFS 2021
  - Introduction by Goetmann, Spaenjers, and Van Nieuwerburgh (2021)

Pricing Private Assets Strip by Strip

- Gupta and Van Nieuwerburgh (JF 2021) propose a valuation method for private assets
  1. Private cash flows exposed to a broad set of **public-sector cash flow risks**, CF exposures estimated using elastic net approach
  2. Market prices of CF risks inferred from the cross-section of stocks and bonds in affine-VAR setup (Lustig, Van Nieuwerburgh, Verdelhan (2013);Koijen, Lustig, Van Nieuwerburgh (2017))

Pricing Private Assets Strip by Strip

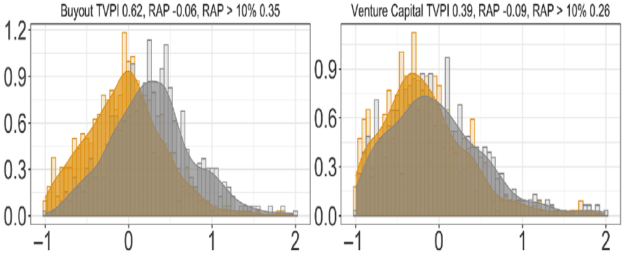
- Gupta and Van Nieuwerburgh (JF 2021) propose a valuation method for private assets
- Richer model than (Generalized) **P**ublic **M**arket **E**quivalent approach of Kaplan and Schoar (JF 2005) and Korteweg and Nagel (JF 2016)
  - Dozen risk factor exposures vs. only market risk (CAPM)
  - Unlike (G)PME, does not rely on *realized* SDF but rather on strip prices which are *expectations* of the SDF. Better behaved.

Pricing Private Assets Strip by Strip

- Gupta and Van Nieuwerburgh (JF 2021) propose a valuation method for private assets
- Richer model than (Generalized) **P**ublic **M**arket **E**quivalent approach of Kaplan and Schoar (JF 2005) and Korteweg and Nagel (JF 2016)
- Assumes that all risks are present and consistently priced in public markets
  - Marginal agent for private assets is a well-diversified public markets investor

Risk-Adjusted Profits

	Buyout		VC		Real Estate	
	Mean	*SD*	Mean	*SD*	Mean	*SD*
TVPI	0.62	(0.74)	0.39	(1.69)	0.17	(0.52)
IRR (%)	0.09	(0.10)	0.03	(0.20)	0.04	(0.11)
PME-1	0.36	(0.67)	0.22	(1.49)	−0.04	(0.44)
RAP 2-factor (NPV Call)	0.28	(0.53)	−0.15	(1.36)	0.09	(0.45)
RAP 15-factor (NPV Call)	−0.06	(0.51)	−0.09	(1.27)	−0.16	(0.38)



Source: Gupta and Van Nieuwerburgh (2021)

Office Apocalypse

- In the same spirit, Gupta, Mittal, and Van Nieuwerburgh (2024) value commercial real estate properties using only cash-flow data
- Exploit rich data on long-term leases for office properties from Compstak
- Build valuation model for portfolios of leases with staggered expiration schedules
- SDF is inferred from stock and bond markets
- Conclude that work-from-home has triggered an **office apocalypse**: 46% value decline in the NYC office stock, more in San Francisco. National value destruction of $557 billion

The Commercial Real Estate Ecosystem

- Koijen, Shah, and Van Nieuwerburgh (2025) develops a **valuation** and **matching** model that recognizes the unique features of private and real assets
- Relaxes the assumption that SDF is determined in public markets
- Allows for specialized, under-diversified private asset investors trading in unique, lumpy assets
- Investigates whether **investor composition** impacts the **pricing of private assets**, leveraging unique data set of buyer and seller identities
- Specialize to **commercial real estate**, a large private asset class

Data

Data

- **Micro Data**: Universe of institutional CRE transactions from MSCI Real Capital Analytics (RCA) between 2001 and 2023 over $2.5mi
  - *Sectors*: Apartments, Office, Industrial, Retail
  - **Asset characteristics** x_{nt}
    - *Asset*: log size, log age, log renovation-adj age, floors, subtype, CBD flag, superstar city flag
    - *Deal type*: regular sale, entity sale, distressed sale
    - *Location*: 60 markets
  - **Investor characteristics** z_{it}
    - RCA has unraveled the **identity of the buyers and sellers**!
    - Investor type
    - Portfolio size: log dollar value of portfolio (built from transactions)
    - Portfolio composition: % of portf in superstar cities, % of portf in same market, % of portf in same sector
    - JV flag
    - Relative size of buyer to seller portfolio (log ratio)

Data

- **Micro Data**: Universe of institutional CRE transactions from MSCI Real Capital Analytics (RCA) between 2001 and 2023 over $2.5mi
- **Macro Data**: At the market level (60 markets)
  - Market size: population (A) or employment (O, I, R) from BEA,
  - Purchasing power: personal income per capita from BEA,
  - Occupancy rate from NCREIF,
  - NOI growth rate from NCREIF,
  - Neighborhood quality: Net Effective Rent per sqft (O, I, R) from Compstak or NOI per unit (A) from Fannie Mae **at the block level**

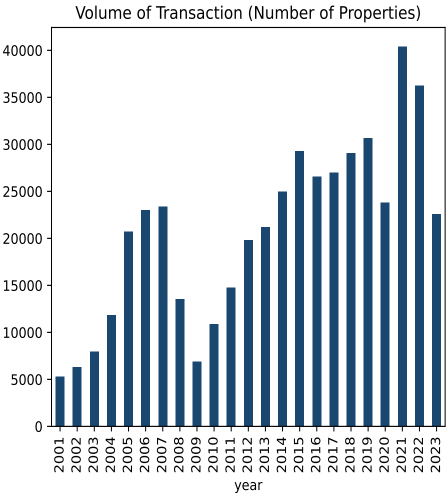
Data

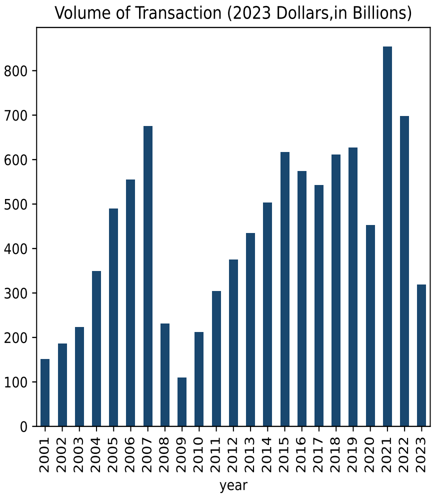
- **Micro Data**: Universe of institutional CRE transactions from MSCI Real Capital Analytics (RCA) between 2001 and 2023 over $2.5mi
- **Macro Data**: At the market level (60 markets)
- **Summary Statistics**
  - 476,000 property transactions
  - $10 trillion aggregate transaction volume
  - 325,000 unique investors
  - $8.6 trillion in asset value at end 2023

Data

- **Micro Data**: Universe of institutional CRE transactions from MSCI Real Capital Analytics (RCA) between 2001 and 2023 over $2.5mi
- **Macro Data**: At the market level (60 markets)
- **Summary Statistics**
- Our focus is on U.S., but data exist to do this internationally

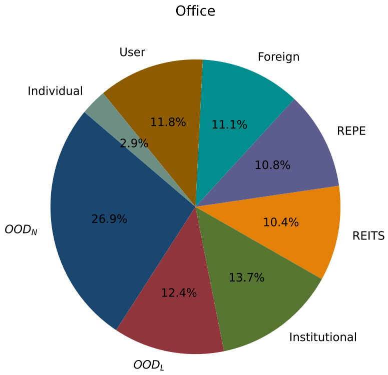
Transaction Volume





▸▸ by location ▸▸ by asset size ▸▸ by asset subtype

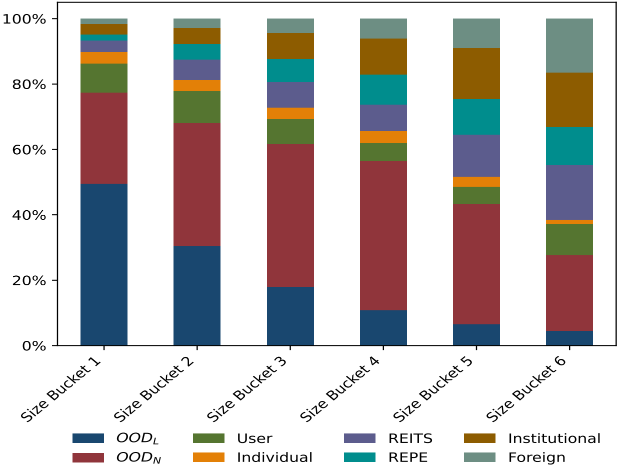
Investor Composition: Investor Types



- Institutional: Pension fund, Endowment, Open-ended fund, Bank, Finance, Insurance, Investment Manager, CMBS
- User: Corporate, Government, Non-profit, Educational, Religious, Cooperative
- Individual: High net worth, non-traded REIT
- Foreign: Sovereign wealth fund, foreign OOD + all other foreign

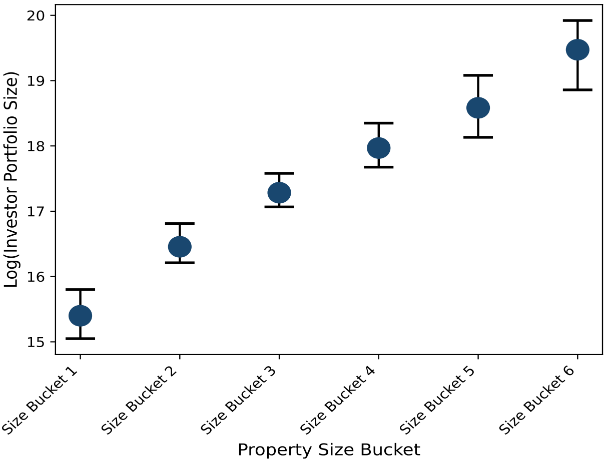
detailed stats

Who Owns What? Investor Type By Asset Size

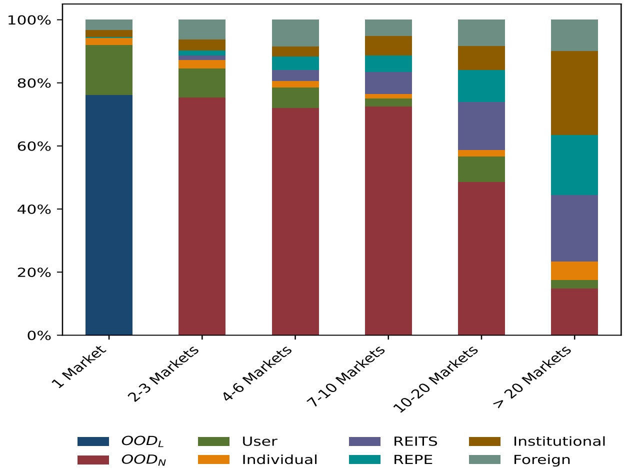


investor size distribution

Who Owns What? Investor Size By Asset Size



Who Owns What? Investor Type By Number of Markets



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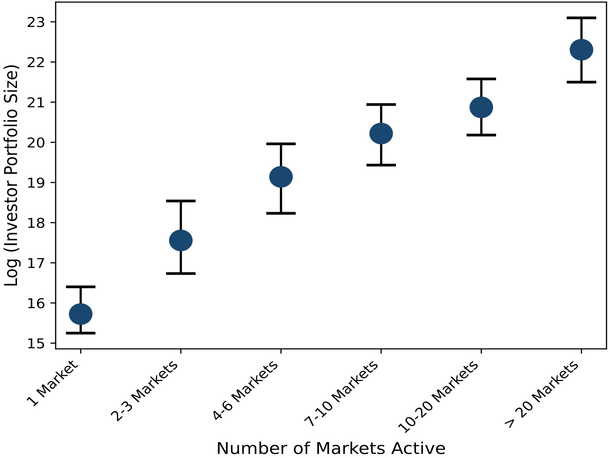

Valuation Model

Valuation Model

- Buyer b and seller s have private valuation for each asset n, $V_{it}(n)$:

$$v_{it}(n) \equiv \ln V_{it}(n) = h(z_{it}, x_{nt}; \gamma_t) + \epsilon_{it}(n),$$

  - Investor heterogeneity z_{it}
  - Asset heterogeneity x_{nt}
  - Valuation residual $\epsilon_{it}(n) \sim \mathcal{N}(0, \sigma_t^2)$ captures liquidity or funding constraints, belief heterogeneity, unobserved quality
- Allow flexible functional form for $h(\cdot)$
- Special case: heterogeneous valuation for characteristics

$$\begin{aligned} h_{it}(n) &= \beta'_{x,i} x_{n,t} + \gamma_t, \\ \beta_{x,i} &= \beta_x z_{i,t}, \end{aligned}$$

- $x_{n,t}$ and $z_{i,t}$ each contain a constant so effects enter separately $+$ $N_x \times N_z$ interactions Micro Foundation

Valuation Model

- Buyer b and seller s have private valuation for each asset n, $V_{it}(n)$:

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- Special case: heterogeneous valuation for characteristics

$$\begin{aligned} h_{it}(n) &= \beta'_{x,i} x_{n,t} + \gamma_t, \\ \beta_{x,i} &= \beta_x z_{i,t}, \end{aligned}$$

- Price determined by bargaining with equal weights

$$p_t(n) = \frac{1}{2} v_{bt}(n) + \frac{1}{2} v_{st}(n)$$

Estimating Valuation Model

- Log price given by

$$p_t(n) \quad = \quad \frac{1}{2}(h_{bt}(n) + h_{st}(n)) + \frac{1}{2}(\epsilon_{bt}(n) + \epsilon_{st}(n)). \qquad (1)$$

- Flexibly capture $h(\cdot)$ using **Light Gradient Boosted Machine**
  - Tree-based model: non-linearities and interactions
  - Handles large datasets and categorical variables
  - Fast to train

Estimating Valuation Model

- Log price given by

$$p_t(n) \;=\; \frac{1}{2}(h_{bt}(n) + h_{st}(n)) + \frac{1}{2}(\epsilon_{bt}(n) + \epsilon_{st}(n)). \qquad (1)$$

- Flexibly capture $h(\cdot)$ using **Light Gradient Boosted Machine**

- Custom LGBM implementation: Recursive gradient-descent on $h_b(x_n, z_b)$ given h_s and on $h_s(x_n, z_s)$ given h_b to enforce (1)

Results: Main Valuation Model with LGBM

Sector	Apartment		Industrial		Office		Retail	
	R^2	R2C	R^2	R2C	R^2	R2C	R^2	R2C
Linear Hedonic	60.0		58.5		46.4		58.0	
LGBM Hedonic	**80.5**		**73.8**		**67.3**		**74.0**	

- Linear hedonic model includes asset features but also local macro variables, market fixed effects, and year fixed effects
- Linear hedonic $\rightarrow$ LGBM hedonic model: adds 20%, 15%, 21%, 16% points in R^2 due to **non-linearities** and **interaction effects**

⏩ LHM detail ⏩ LGBM detail

Results: Main Valuation Model with LGBM

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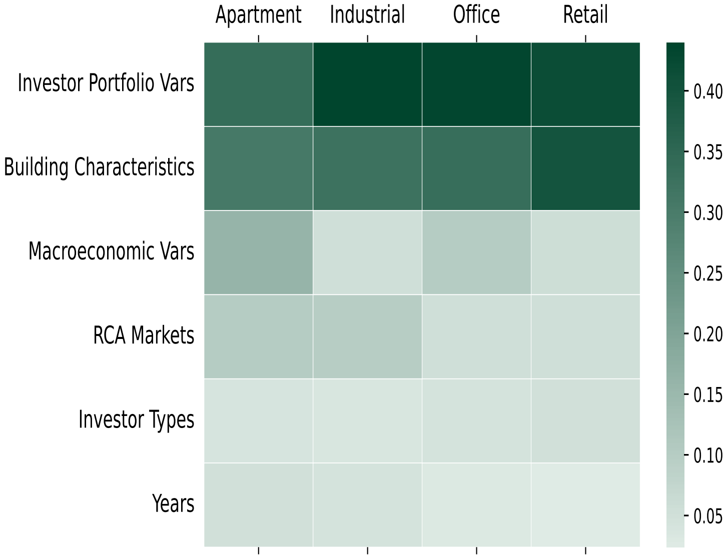
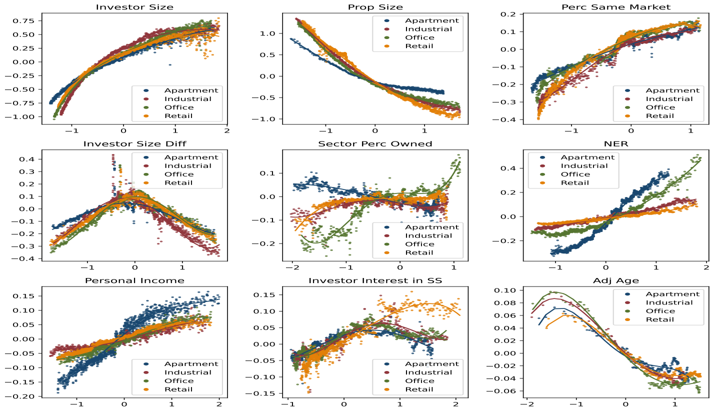
- LGBM hedonic model $\rightarrow$ LGBM with **investor characteristics**: adds 9%, 16%, 20%, 17% points in R^2
- Reduces unexplained variation $R2C$ by 48-64%.

LHM detail LGBM detail

Feature Importance in Valuation Model

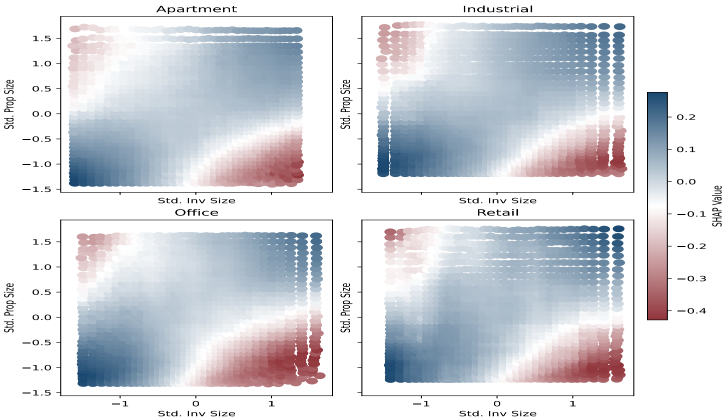


Feature Importance: Non-linearities



- Shows importance of a feature (SHAP) for transaction prices at different percentiles of that feature

Feature Interaction of Investor and Property Sizes



- Large investors have lower valuations for small properties; small investors have lower valuations for large properties

other interaction effects

Transaction Model

Listing, Meeting, and Transacting

- Directed search and matching model between seller s and buyer b
- Transaction happens w.p. $\pi_{bs} = \pi_s^{\ell} \cdot \pi_{bs}^{m} \cdot \pi_{bs}^{\tau}$

Listing, Meeting, and Transacting

- Directed search and matching model between seller s and buyer b
- Transaction happens w.p. $\pi_{bs} = \pi_s^\ell \cdot \pi_{bs}^m \cdot \pi_{bs}^\tau$
- Seller with listing s meets buyer $b \neq s$ with probability π_{bs}^m

$$\pi_{bs}^m = \frac{\exp\left(\lambda_1 S_b + \lambda_2 \Delta S_{b,s}^{-1} + \lambda_3' \delta_{b,s} + \lambda_4 N_b\right)}{\sum_{c \neq s} \exp\left(\lambda_1 S_c + \lambda_2 \Delta S_{c,s}^{-1} + \lambda_3' \delta_{c,s} + \lambda_4 N_c\right)}.$$

- Meeting more likely if
  1. $\lambda_1 > 0$: buyer is larger in terms of portfolio size
  2. $\lambda_4 > 0$: Buyer owns more than 2 assets
  3. $\lambda_2 > 0$: buyers and sellers have similar size
  4. $\lambda_3 > 0$: Asset is similar to buyer's consideration set $\delta_{b,s}$ in terms of:
     (i) asset size
     (ii) asset location (geography, market)
     (iii) sector expertise
     (iv) quality (measured based on local rents)

Listing, Meeting, and Transacting

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- Transaction happens w.p. $\pi_{bs} = \pi_s^\ell \cdot \pi_{bs}^m \cdot \pi_{bs}^\tau$
- Seller with listing s meets buyer $b \neq s$ with probability π_{bs}^m
- Conditional on meeting, transact with probability π_{bs}^τ

$$\pi_{bs}^\tau = P\left(V_b > V_s\right) = P\left(h_b - h_s > \epsilon_s - \epsilon_b\right)$$

If $\epsilon_i \sim N(0, \sigma^2)$ then $\pi_{bs}^\tau = \Phi\left(\frac{h_b - h_s}{\sqrt{2}\sigma}\right)$.

Listing, Meeting, and Transacting

- Directed search and matching model between seller s and buyer b
- Transaction happens w.p. $\pi_{bs} = \pi_s^\ell \cdot \pi_{bs}^m \cdot \pi_{bs}^\tau$
- Seller with listing s meets buyer $b \neq s$ with probability π_{bs}^m
- Conditional on meeting, transact with probability π_{bs}^τ
- Owner lists building for sale with probability $\pi_{s,t}^\ell$
  - Chosen to match # transactions T_t in each year-sector:

$$\sum_s \pi_{s,t}^\ell \sum_b \pi_{bs}^m \pi_{bs}^\tau = T_t.$$

Estimating Meeting Model: An Intractable Problem?

- Maximize the log likelihood $\sum_s \mathcal{L}(s)$
- For every building, need to compute the likelihood $\mathcal{L}(s)$ with every potential buyer: $N \times B$ possibilities, where $N \approx 120,000$ buildings per sector, $I = 350,000$ possible buyers, in every period, and do this for every function valuation when estimating the parameters.
- Computationally expensive!

Consistent Estimator

- Use **ideas from the NLP literature**'s word embedding problem (Mikolov et al, 2013a, 2013b, Ma and Collins, 2018)
- For each transaction (s), consider the actual buyer b and small number $K-1$ of non-buyers $k \in \mathcal{N}_s$ with $\#(\mathcal{N}_s) = K-1$
- Likelihood that b is the buyer out of these K potential buyers

$$\pi_r(b,s) = \frac{\xi_{b,s}}{\xi_{b,s} + \sum_{k \in \mathcal{N}_s} \xi_{k,s}},$$

where $\xi_{b,s} = \exp\left(\lambda_1 S_b + \lambda_2 \Delta S_{b,s}^{-1} + \lambda_3' \delta_{b,s} + \lambda_4 N_b\right) \pi_\tau(b,s)$

Consistent Estimator

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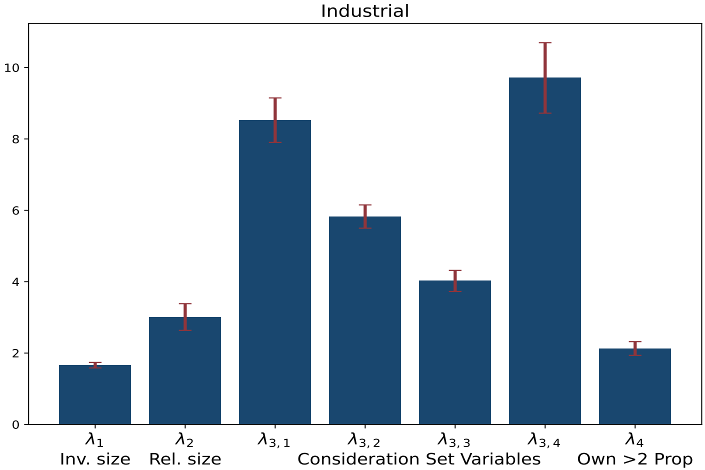
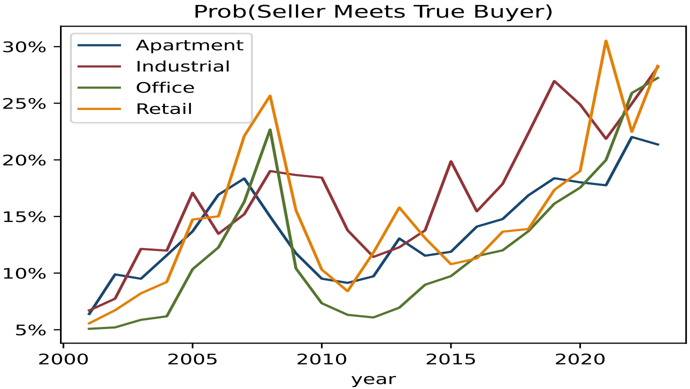
- For each transaction (s), consider the actual buyer b and small number $K-1$ of non-buyers $k \in \mathcal{N}_s$ with $\#(\mathcal{N}_s) = K-1$
- Minimize loss function over observed transactions: $-\sum_s \ln \pi_r(b, s)$
- *Ranking estimator* is consistent for $K > 1$, asymptotically normal, and converges to MLE as $K \to \infty$

Results: Matching Model



- Negative set $K = 1,000$ active investors (bought property in last 5 years), bootstrap standard errors

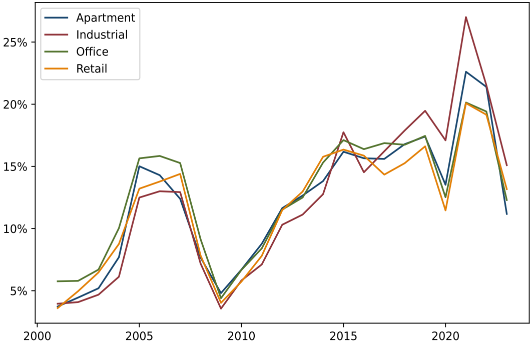
Matching Model Works



- Model discriminates btw actual buyer and negative sample well, with dip in the GFC; compare to random matching: 0.1%

valuation gap

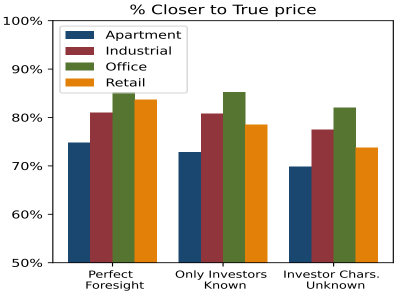
Results: Listing Probabilities

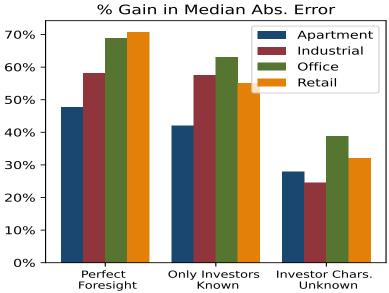


- Reconciles the model-implied transaction probabilities with observed transaction volumes for each sector-year

Applications:
Predictions and Counterfactuals

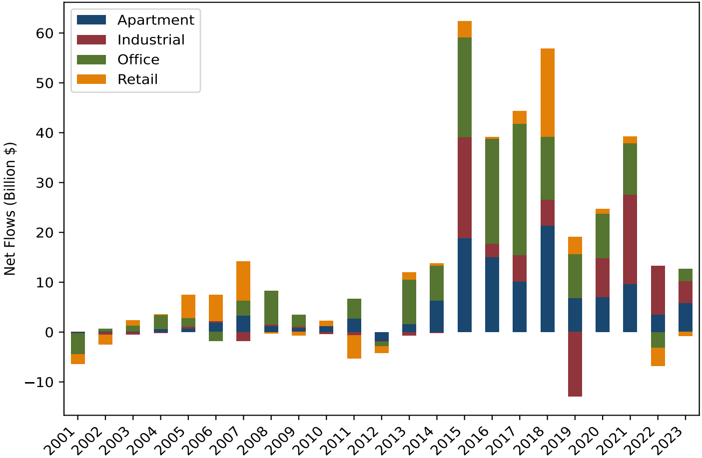
Out-of-Sample Transaction Price Prediction





- Model is estimated with data up until time t
- LGBM closer to true price than LHM in 70-80% of transactions, median pricing error is 30-70% lower

Investor Flows: Foreign Net Purchases

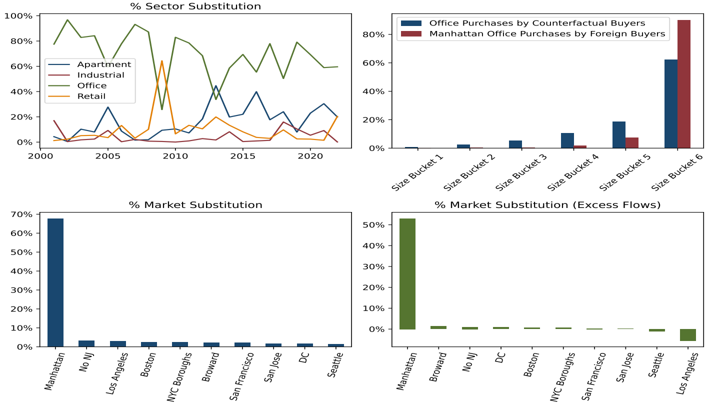


- Foreign buyers were important in 2015-18 and 2021, e.g., Middle East sovereign wealth funds and Canadian pension plans ⏩ graph

Counterfactual: Substitution Patterns

- Foreign investors estimated to have strong preference for large, high-end properties in superstar cities
- Sample **alternative buyers** for Manhattan Offices bought by foreign buyers
- Substitution: What assets did those alternative buyers actually buy?

Counterfactual: Substitution Patterns



- Substitution to smaller offices
- Limited spatial crowd-out: 65% of alternative purchases are in Manhattan, but foreigners crowded out Manhattan office specialists

Counterfactual: Substitution Patterns

- What are the implications for prices from replacing foreign buyers with alternative buyers? potential price distribution
- It lowers average Manhattan office prices by **7.5% over 2013–2022**; 8.6% for top-50% by office values figure
- Paper: counterfactual prices of REIT sales to PE funds in run-up to GFC REIT CF

Conclusion

- Develop a new asset pricing framework for private and real assets
  - **Investor characteristics** are important new hedonics
  - Recognizes bilateral nature of trade, uniqueness of each asset
- Composition of investor base matters for expected price and *price risk*
- Fruitful research agenda as size of private and real asset market grows

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Thank you!

Micro foundation of the private valuation model

- A two-period model, $t = 0, 1$.
  - Period $t = 0$, investor i considers buying a building with cash C_{0i}
  - Period $t = 1$, investor receives the net cash flow and resale value of the building N_{1i}
- The building may be part of a broader property portfolio.
- Without the new building, the broader portfolio generates a payoff D_{1i} and investor's wealth at $t = 1$ is $A_{1i} = D_{1i} + C_{0i}$.
- Investors have heterogeneous beliefs about future payoffs: $(D_{1i}, N_{1i}) \sim N(\mu_i, \Sigma_i)$.
- If i adds the building to her portfolio, period $t = 1$ wealth equals $A^P_{1i} = D_{1i} + C_{0i} - P_0 + N_{1i}$, where P_0 is the purchase price of the property.

Micro foundation of the private valuation model

- Investor has mean-variance preferences over terminal wealth:

$$\mathbb{E}_i[A_{1i}] - \gamma_i \mathrm{Var}_i(A_{1i}),$$

  where γ_i is risk aversion.

- This valuation then solves the following equation:

$$\mathbb{E}_i[D_{1i}+C_{0i}]-\gamma_i \mathrm{Var}_i(D_{1i}) = \mathbb{E}_i[D_{1i}+C_{0i}-V_{0i}+N_{1i}]-\gamma_i \mathrm{Var}_i(D_{1i}+N_{1i})$$

- This gives investor's private valuation:

$$V_{0i} = \mathbb{E}_i[N_{1i}] - \gamma_i \mathrm{Var}_i(N_{1i}) - 2\gamma_i \mathrm{Cov}_i(D_{1i}, N_{1i}),$$

  depends on: the expected payoff, $\mathbb{E}_i[N_{1i}]$, discount for its variance, $\mathrm{Var}_i(N_{1i})$, and further discount or premium depending on property's covariance with other assets in investor's portfolio, $\mathrm{Cov}_i(D_{1i}, N_{1i})$.

Micro foundation of the private valuation model

To obtain a characteristics-based model of investors' private valuations, we follow Koijen and Yogo (2019) and model the moments as functions of characteristics with investor-specific coefficients that reflect differences in beliefs:

$$\begin{aligned}
\mathbb{E}_i[N_{1i}] &= \beta_{i0}' x_n, \\
\gamma_i \mathrm{Var}_i(N_{1i}) &= \beta_{i1}' x_n, \\
\gamma_i \mathrm{Cov}_i(D_{1i}, N_{1i}) &= \beta_{2i}' x_n.
\end{aligned}$$

Risk aversion, beliefs, and D_{1i} are heterogeneous across investors.
Model heterogeneity across investors as function of size of investor portfolio, investor type, etc.:

$$\beta_{ki} = \beta_k' z_i, \quad \forall k = \{0, 1, 2\}.$$

back

Literature

- Valuing private assets Kaplan and Schoar (2005); Korteweg and Sørensen (2010); Driessen et al. (2012); Korteweg and Nagel (2016); Ang et al. (2018); Gupta and Van Nieuwerburgh (2021); Gupta et al. (2025)
  - This paper: Starts from a valuation model at the investor level, no reference to public market SDF
- Linear hedonic valuation model Lancaster (1966); Griliches (1971); Rosen (1974); Witte et al. (1979); Wallace (1996)
  - This paper: large improvements from non-linearities, interactions, and investor characteristics
- Demand-system asset pricing Koijen and Yogo (2019); Koijen et al. (2024)
  - This paper: model transaction of entire property in bilateral exchange
- Risk and return in CRE Plazzi et al. (2008, 2010); Van Nieuwerburgh et al. (2015); Peng (2016); Van Nieuwerburgh (2019); Sagi (2021)
  - This paper: large sample, not just REITs, new model
- Role of investor characteristics in CRE Ghent (2021); Cvijanović et al. (2022); Badarinza and Ramadorai (2018); Badrinza et al. (2022)
  - This paper: systematic approach to sources of heterogeneity, potential price distribution provides complementary liquidity risk measure

Price Distribution and Counterfactuals

- Algorithm for computing distribution of potential transaction prices
  - For some asset that trades, compute $\widehat{\epsilon}_{st} = \mathbb{E}[\epsilon_{st} \mid \frac{1}{2}(\epsilon_{st} + \epsilon_{bt})]$
  - Form $v_{st} = h_{st} + \widehat{\epsilon}_{st}$
  - Form meeting probabilities for every candidate buyer b': $\pi^m_{b's}$
  - Draw C candidate buyers with replacement $\propto \pi^m_{b's}$
  - For each candidate buyer in resulting sample, draw $\epsilon_{bt} \sim N(0, \sigma^2_t)$
  - Form h_{bt}, $v_{bt} = h_{bt} + \epsilon_{bt}$
  - For each candidate buyer, check that $v_{bt} > v_{st}$.
  - If yes, record the price $p_t = \frac{1}{2}(v_{bt} + v_{st})$. If not, set price to missing.
  - Report mean and IQR of the distribution of non-missing prices

Price Distribution and Counterfactuals

- Algorithm for computing distribution of potential transaction prices
- Potential transaction price distribution useful for:
  - Comparing to observed price (low price: seller drew unlucky v_b)
  - Pricing strategy when trading asset next
  - Performance of seller's or buyer's broker
  - Risk management: IQR on valuation

Price Distribution and Counterfactuals

- Algorithm for computing distribution of potential transaction prices
- Potential transaction price distribution useful for:
- Counterfactuals: role of investor composition
  - Remove one group of buyers from algorithm (type, size group, etc.)
  - Resolve for potential transaction price distribution
  - Show new mean, IQR
  - Repeat for each group of investors
  - Helps understand which investors matter most for prices

back

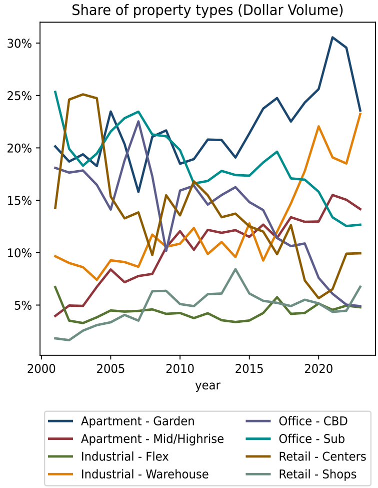
Transaction Volume by Asset Location

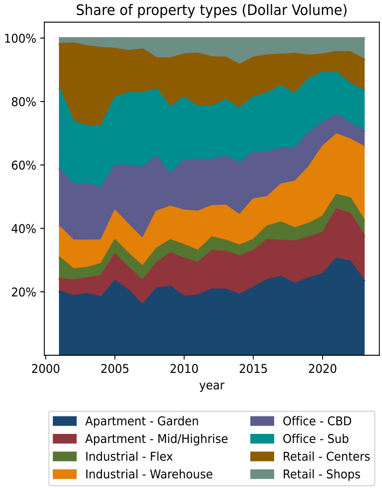
	# Trans	% Trans	$ Vol	% Vol	%A	%I	%O	%R
Manhattan	12,617	2.65	733.41	7.27	26.15	0.85	63.82	9.18
Los Angeles	30,892	6.49	578.30	5.73	29.03	20.25	33.95	16.77
Dallas	18,720	3.93	448.09	4.44	44.79	18.30	24.20	12.72
Chicago	19,060	4.00	405.98	4.02	21.55	24.14	36.34	17.97
Atlanta	15,828	3.33	372.71	3.69	43.72	17.27	24.37	14.64
Houston	12,937	2.72	303.41	3.01	42.57	14.15	28.35	14.92
Boston	8,268	1.74	303.20	3.00	20.36	12.95	57.92	8.78
Seattle	10,744	2.26	279.32	2.77	34.78	14.64	39.27	11.30
Phoenix	13,512	2.84	277.81	2.75	46.14	16.21	22.14	15.51
San Francisco	7,561	1.59	242.48	2.40	21.18	8.48	60.49	9.85
DC VA burbs	5,051	1.06	236.12	2.34	36.26	10.96	42.38	10.40
Northern NJ	10,114	2.12	205.36	2.03	24.83	28.42	32.81	13.94
San Diego	9,332	1.96	199.01	1.97	31.34	19.69	33.75	15.22
San Jose	6,280	1.32	197.36	1.96	17.02	23.26	50.56	9.15
Washington DC	2,395	0.50	147.88	1.47	16.20	1.18	78.14	4.48
Miami	7,239	1.52	142.94	1.42	30.99	19.78	27.49	21.74
All Others	285,472	59.97	5,019.61	49.73	36.85	20.13	21.08	21.94

- We define 60 markets (geographies)
- 16 are superstar cities (11 of these in bold)

back

Transaction Volume by Asset Type





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Transaction Volume by Asset Size

	# Trans	% Trans	Cum. % Trans	$ Vol	% Vol	Cum. % Vol
Above 1 Bil	269	0.06	0.06	327	3.24	3.24
500 Mil - 1 Bil	701	0.15	0.20	374	3.71	6.95
250-500 Mil	2,368	0.50	0.70	704	6.97	13.92
100-250 Mil	12,525	2.63	3.33	1,726	17.10	31.02
75-100 Mil	9,301	1.95	5.29	772	7.65	38.68
50-75 Mil	19,926	4.19	9.47	1,181	11.71	50.38
25-50 Mil	52,693	11.07	20.54	1,814	17.97	68.35
20-25 Mil	22,517	4.73	25.27	496	4.91	73.26
15-20 Mil	33,779	7.10	32.37	578	5.72	78.99
10-15 Mil	57,414	12.06	44.43	695	6.89	85.87
5-10 Mil	135,100	28.38	72.81	951	9.42	95.30
Below 5 Mil	129,429	27.19	100.00	474	4.70	100.00

- About equal volume in 6 size groups: >$250M, $100-250M, $50-100M, $25-50M, $10-25M, < $10M

back

Investor Composition: Investor Types

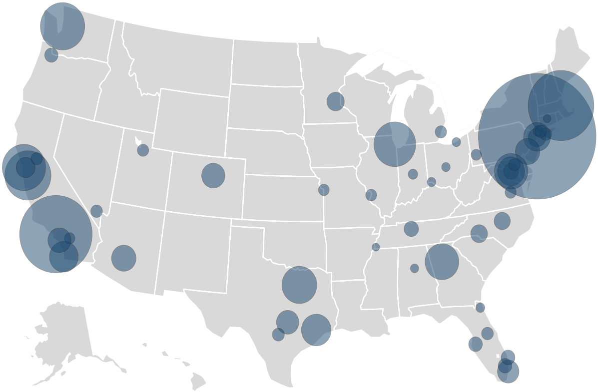
	Buyer (#Trans)	Buyer ($ Vol)	Buyer (% Vol)	Seller (#Trans)	Seller ($ Vol)	Seller (% Vol)	Unique Investors
REPE	28,853	1241	12.30	22,058	1031	10.22	596
Institutional	38,066	1479	14.66	38,148	1371	13.59	3,435
OOD_L	147,030	1316	13.05	161,967	1656	16.41	238,140
OOD_N	150,678	3083	30.56	131,966	3081	30.54	25,385
Individual	19,453	406	4.02	19,399	285	2.82	15,811
REITS	33,518	1182	11.72	35,135	1254	12.43	389
Foreign	17,606	844	8.37	13,055	616	6.11	2,782
User	28,771	418	4.14	33,663	554	5.49	29,845
Unknown	12,044	119	1.18	20,627	241	2.39	7,802
Total	476,018	10,088	100	476,018	10,088	100	324,185

- Institutional: Pension fund, Endowment, Open-ended fund, Bank, Finance, Insurance, Investment Manager, CMBS
- User: Corporate, Government, Non-profit, Educational, Religious, Cooperative
- Individual: High net worth, non-traded REIT
- Foreign: Sovereign wealth fund, foreign OOD + all other foreign

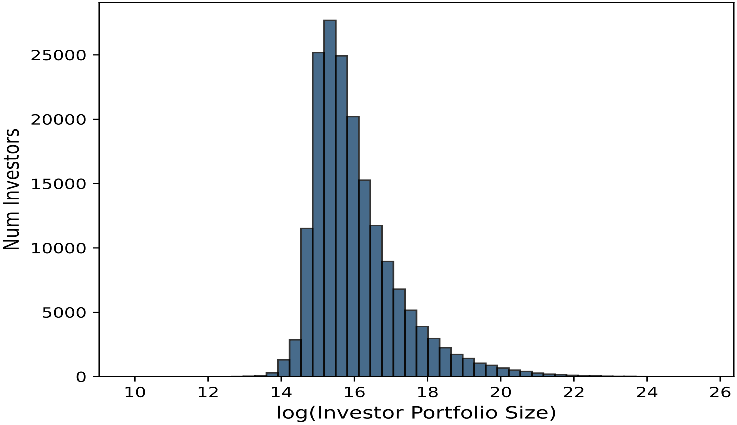
back

Transaction Volume by Asset Location

Office Properties: Market Sizes in 2023



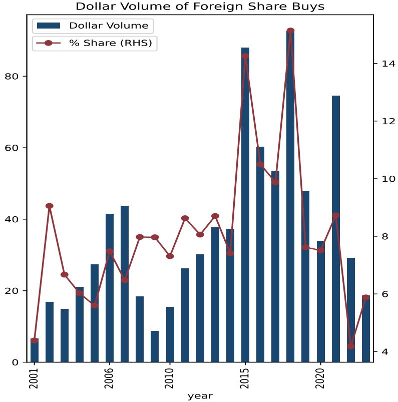
Investor Size Distribution

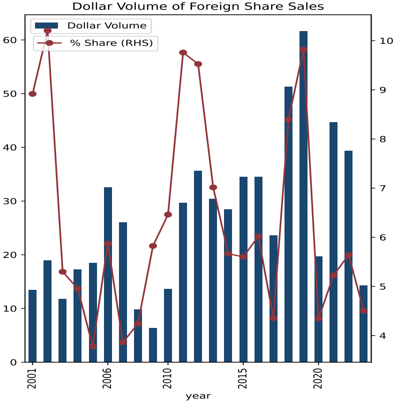


- 16.2 = \$10 mi, 17.7 = \$50 mi, 20.7 = \$1 bi

back

Foreign Investment Activity





back to data
back to counterfactuals

Benchmark: Linear Hedonic Model

	Apartment	Industrial	Office	Retail
CBD Indicator	0.153*	0.288***	0.095	0.269***
	(0.057)	(0.059)	(0.049)	(0.052)
Age	-0.075***	0.001	-0.036***	-0.006
	(0.010)	(0.007)	(0.008)	(0.006)
Renovation Adj Age	-0.032***	-0.093***	-0.081***	-0.105***
	(0.007)	(0.010)	(0.011)	(0.009)
Property Size	-0.091***	-0.269***	-0.226***	-0.373***
	(0.020)	(0.014)	(0.022)	(0.014)
Property Subtype	0.137***	0.129***		0.050*
	(0.026)	(0.020)		(0.025)
No. of Floors	0.116***	0.024	0.087***	0.055*
	(0.016)	(0.021)	(0.010)	(0.020)
Entity Sale	0.207*	0.117	0.152	0.050
	(0.090)	(0.093)	(0.093)	(0.110)
Transfer	-0.233***	-0.228***	-0.316***	-0.292***
	(0.028)	(0.032)	(0.032)	(0.040)
Market Occupancy	0.294	-0.082	0.404***	0.075
	(0.364)	(0.093)	(0.096)	(0.100)
NOI growth	0.078	0.010	0.035	-0.069
	(0.090)	(0.047)	(0.036)	(0.043)
Personal Income	0.568***	0.284***	0.352***	0.433***
	(0.072)	(0.066)	(0.054)	(0.031)
Population/Employment	0.022	0.019	-0.030*	0.038***
	(0.013)	(0.013)	(0.012)	(0.006)
NER	0.130***	0.230***	0.461***	0.164***
	(0.026)	(0.037)	(0.070)	(0.033)
Year FE	✓	✓	✓	✓
Market FE	✓	✓	✓	✓
Observations	141,135	116,737	96,139	114,223
Adj. R^2	59.94	58.46	46.35	57.96
Adj. R^2 (Excluding NER)	58.48	57.54	43.26	57.20

⏩ back

Results: Main Valuation Model with LGBM

Sector	Apartment		Industrial		Office		Retail	
	R^2	R2C	R^2	R2C	R^2	R2C	R^2	R2C
Hedonic Model	53.36		53.39		46.99		61.93	
+ Macro Vars	73.95		68.95		64.53		70.39	
+ Year Fixed Effects	76.31		70.39		67.32		71.52	
+ Market Fixed Effects	80.45		73.76		67.25		73.98	
+ Investor Types	81.93	7.57***	79.20	20.73***	71.87	14.11***	79.39	20.79***
+ Portfolio Vars	89.76	47.62***	89.89	61.47***	87.20	60.92***	90.70	64.26***

- Linear hedonic $\rightarrow$ LGBM model: adds 20%, 15%, 21%, 16% points in R^2 due to **non-linearities** and **interaction effects**

back

Results: Main Valuation Model with LGBM

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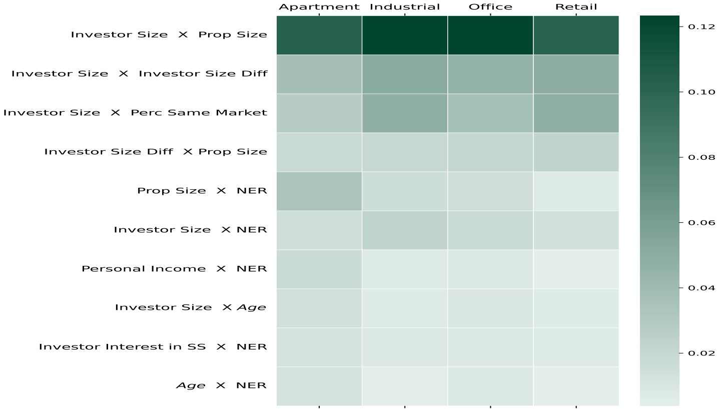
+ Macro Vars	73.95		68.95		64.53		70.39	
+ Year Fixed Effects	76.31		70.39		67.32		71.52	
+ Market Fixed Effects	80.45		73.76		67.25		73.98	
+ Investor Types	81.93	7.57***	79.20	20.73***	71.87	14.11***	79.39	20.79***
+ Portfolio Vars	89.76	47.62***	89.89	61.47***	87.20	60.92***	90.70	64.26***

- LGBM model without $\rightarrow$ with **investor characteristics**: adds 9%, 16%, 20%, 17% points in R^2
- Reduces unexplained variation $R2C$ by 48-64%.

back

Feature Importance: Interactions



- Investor size interacts with property characteristics and other investor characteristics

back

Results: Matching Model

Table: Meeting Model Calibrations

	λ_1	λ_2	$\lambda_{3,1}$	$\lambda_{3,2}$	$\lambda_{3,3}$	$\lambda_{3,4}$	λ_4
Apartment	1.55	2.69	8.27	5.58	4.12	7.31	2.21
	(0.03)	(0.17)	(0.25)	(0.14)	(0.15)	(0.33)	(0.08)
Industrial	1.66	3.01	8.53	5.83	4.02	9.71	2.13
	(0.04)	(0.19)	(0.32)	(0.17)	(0.15)	(0.50)	(0.10)
Office	1.58	2.76	8.13	5.66	3.30	10.35	2.37
	(0.04)	(0.19)	(0.3)	(0.17)	(0.16)	(0.54)	(0.09)
Retail	1.54	2.76	8.22	5.54	3.85	7.6	2.19
	(0.04)	(0.18)	(0.29)	(0.17)	(0.14)	(0.38)	(0.09)

- Negative set $K = 1,000$ active investors (bought property in last 5 years), bootstrap standard errors

Table: Meeting Model Calibrations

	λ_1	λ_2	$\lambda_{3,1}$	$\lambda_{3,2}$	$\lambda_{3,3}$	$\lambda_{3,4}$	λ_4
Apartment	1.55	2.69	8.27	5.58	4.12	7.31	2.21
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- $\lambda_1 > 0$: 1% larger investors have 1.5-1.7% higher transaction likelihood; $\lambda_4 > 0$: buyers with > 2 assets 2.2% more likely to trade

Table: Meeting Model Calibrations

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	(0.04)	(0.18)	(0.29)	(0.17)	(0.14)	(0.38)	(0.09)

- $\lambda_2 > 0$: more similar-sized buyers and sellers more likely to trade (positive assortative matching)

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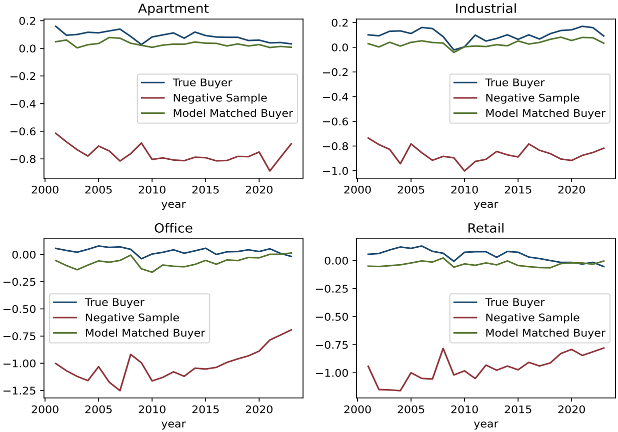
	(0.04)	(0.18)	(0.29)	(0.17)	(0.14)	(0.38)	(0.09)

- $\lambda_3 > 0$: similarity of asset to existing portfolio (size, location, sector, neighborhood quality) all very important

Matching Model Works



- Positive sample has higher valuation gap than negative sample

back

Counterfactual: Price Impact of Foreigners

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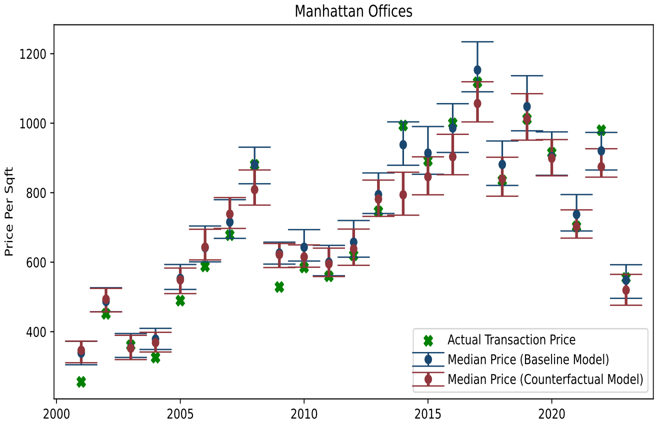

- Blue: with foreign buyers
- Red: without foreign buyers

Counterfactual: Price Impact from Changed Buyer Pool

Model	Trans. %	ppsf $	Major Buyers (% Buy Volume)
Truth	100.0	208.3	[REPE: 41.7, Instit.: 19.9, :OOD_N 17.4, REITS: 9.9]
Benchmark	78.2	194.1	[REPE: 24.0, Instit.: 19.4, OOD_N: 17.1, REITS: 16.4]
Excl. REPE/Instit.	67.3	168.1	[OOD_N: 31.9, REITS: 27.4, OOD_L: 20.4]
Excl. REPE/Institut. & REITS	62.4	149.5	[OOD_N: 41.9, OOD_L: 27.0]

- REITS sold a lot of office assets to REPE funds in 2007; REPE had strong fundraising (buying pressure)
- Experiment: Remove REPE from the buyer pool,
  recompute counterfactual *potential price distribution*

back

Counterfactual: Price Impact from Changed Buyer Pool

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- Office prices would have been 13% lower and volume 11% lower
- Reason: REPE funds had a higher valuation for offices in 2007 than other investors such as OODs
- Without REIT buyers as well, office prices would have been 23% lower

back

Counterfactuals on Investor Composition

- What would have happened to CRE prices and trading volumes if...
  - REPE funds had not experienced as much selling pressure $\sim$10 years after large fundraising vintage (e.g., 2005-07, 2014-17)
  - REITs had not been unable to buy assets when $P < NAV$
  - Foreign investors did not have such a strong preference for green buildings
  - Pension funds had not searched for yield in CRE
  - Local rent regulation reform in apartment sector had not occurred in CA, OR, NYC
  - Work-from-home shock had not hit office as hard in cities with large tech sector
  - The Fed had not hiked interest rates as much as they did in 2022-23 (mon pol shock affecting investors differently through financing)

back

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