

Report Type

End of Award Report

Full Name

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Faculty/Department

Land Economy

Project Title

Capital Expenditures and the Property Cycle

Project Abstract

Recent empirical research provides evidence on the asset disposition choices of individual and institutional real estate investors that is consistent with the behavioral notion of the 'disposition effect', that is, the irrational choice to hold poorly performing investments and to dispose of strongly performing investments in an effort to avoid the realization of losses. We propose a value-add investment strategy as an alternative rational explanation for the observed patterns in disposition choices. The main value-add mechanism in real estate investment is capital expenditure (CAPEX). However, CAPEX is a real option whose exercise depends on its moneyness, which is a function of the economic environment. Therefore, we study the links between building-level CAPEX and subsequent transactions throughout the real estate cycle to explore the empirical evidence for our proposed rational explanation for the alleged disposition effect in real estate asset disposition decisions. Our results may further support practitioners in choosing an optimal CAPEX reserve.

Activities and Achievement

Recent empirical research provides evidence on the asset disposition choices of individual and institutional real estate investors that is consistent with the behavioral notion of the 'disposition effect', that is, the irrational choice to hold poorly performing investments and to dispose of strongly performing investments in an effort to avoid the realization of losses. We propose a value-add investment strategy as an alternative rational explanation for the observed patterns in disposition choices. The main value-add mechanism in real estate investment is capital expenditure (CAPEX). However, CAPEX is a real option whose exercise depends on its moneyness, which is a function of the economic environment. Therefore, we study the links between building-level CAPEX and subsequent transactions throughout the real estate cycle to explore the empirical evidence for our proposed rational explanation for the alleged disposition effect in real estate asset disposition decisions. Our results may further support practitioners in choosing an optimal CAPEX reserve.

Dissemination

We have currently submitted the paper to the AREUEA International Conference 2016.

Outputs

Our working paper "Capital Expenditures, Asset Dispositions, and the Real Estate Cycle" has been submitted to the AREUEA International Conference 2016. Draft paper enclosed with this report.

Major Difficulties and Any Other Issues

None.

Web Links

None.

Additional Information

Please do not circulate the draft paper publicly.

Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

Signature - Main Award Holder

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