DISCUSSION

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

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May 23, 2018
ABFER Annual Meeting, Singapore
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Paper Summary

- 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

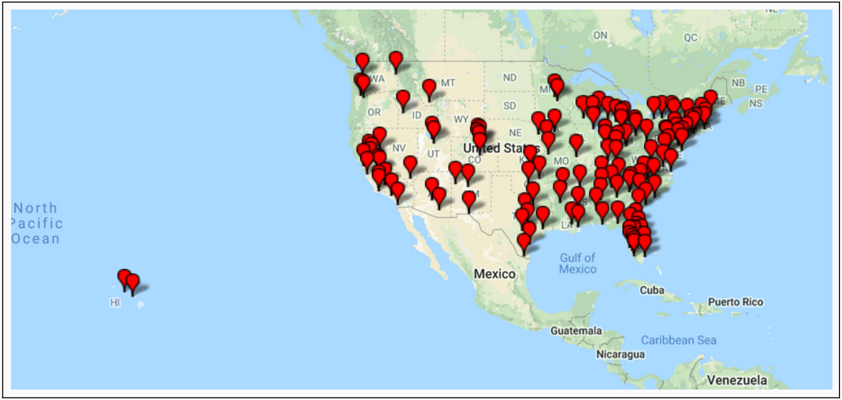
Concentration risk is not priced in REIT returns

- Possible explanations:

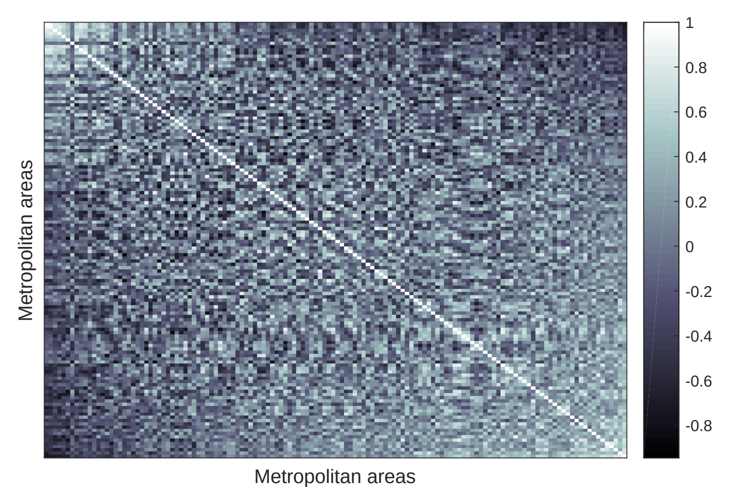
1. Measurement issues
   - Geographic concentration is just a proxy for cash flow exposure to correlated shocks
   - How good of a proxy is it?
2. Market inefficiencies

Metropolitan areas

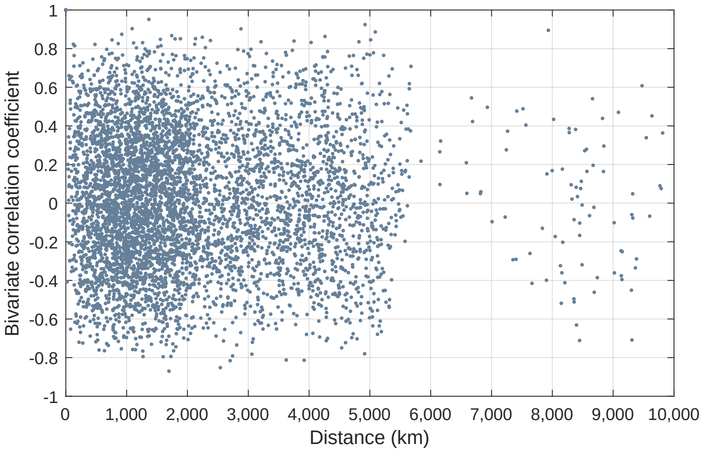
(Commercial real estate. Deals above $10mil.)



Price correlation across metropolitan areas
(net of aggregate price changes)



Sanity check: Does distance matter?



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

Identification: time series approach

- 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

Location decisions

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!