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The 2015 Maastricht-NUS-MIT International Real Estate Finance & Economics Symposium: Editors' Introduction to the Special Issue

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The 2015 Maastricht-NUS-MIT International Real Estate Finance & Economics Symposium: Editors' Introduction to the Special Issue

Abstract

This is the Editors' Introduction to the special issue of the Journal of Real Estate Finance and Economics. The issue includes six papers presented at the 2015 Maastricht-NUS-MIT (MNM) Symposium on International Real Estate Finance and Economics, held at the National University of Singapore in September 2015. This Introduction briefly describes the articles included in the special issue. The papers cover a broad range of topics.

Keywords: REITs, Real estate rents, Private real estate funds

A total of 8 papers were presented at the 2015 Maastricht-NUS-MIT conference, and six of these have been selected for publication in the special conference issue of the *Journal of Real Estate Finance and Economics*. The papers range quite widely in their choice of topics, from Real Estate Investment Trusts to location value on the world wide web and from financing issues to the salience of investor distance in real estate performance.

The conference welcomed three teams working on Real Estate Investment Trusts. In Alcock and Steiner's paper on "Fundamental drivers of dependence in real estate securities returns," studies the dependence structure between individual REIT and stock market returns. They differentiate the average systematic risk of REITs and their asymmetric risk in the sense of a disproportionate likelihood of joint negative return clusters between REITs and the stock market. The key result is that REITs with low systematic risk are typically small, with low short-term momentum, low turnover, high growth opportunities and strong long-term momentum. Holding systematic risk constant, the main driving forces of asymmetric risk are leverage and, to some extent, short-term momentum.

French and Price propose a new model for valuing U.S. real estate investment trusts (REITs) that considers the tax liability impounded in REITs' property portfolio, which is a function of the portfolio's accumulated depreciation and is driven by different tax rates applied to individual components of the total gain from property sales. These two components are the capital gain resulting from the sale of property at a price higher than its cost and the gain due to the recapture of depreciation taken during the use of the property. The paper computes the REIT's net asset liquidation value (NALV) and shows that NALVs provide superior estimates of REIT market prices than do net asset values (NAVs).

The third paper studying REITs is by Ruoran Xu and Joseph Ooi. They investigate returns to scale in real estate investment organizations, and employ REIT growth data for this. Interestingly, almost halve of the growth incidents they study are associated with decreasing returns to scale, and therefore do not seem to add value for shareholders. They then move on and look at the characteristics of REITs engaging in such "bad growth." It turns out that bigger REITs are more likely to engage in bad growth. Corporate governance mechanisms may limit REITs' propensity to do so, and Xu and Ooi show that monitoring of management by institutional investors is most effective in that regard. Independent directors and external creditors do not seem to have such an effect.

Beyond the REIT papers, the conference presented a paper by Xiaoying Deng, Seow Eng Ong and Meijun Qian entitled, "Real Estate Risk, Corporate Investment and Financing Choice". This paper joins the literature on corporate real estate, the effect of the real estate holdings of publicly-traded non-real estate firms. The focus in Deng at al's paper is on the effect of the *risk* of the firm's real estate holdings. They use two measures of real estate risk: residuals from a time series regression of REIT returns on equity market returns, and REIT betas. As would be predicted by rational management theory, both measures of risk are found to be negatively correlated with firms' investment as well as external financing.

The paper by Ling et al entitled "Search Cost, Behavorial Biases and Information Intermediary effects" focuses on search costs and asymmetric information that increases with the distance between the buyers and the transacted commercial property. The analysis shows that distant commercial real estate buyers pay premiums of 4% to 15% relative to local buyers, controlling for individual property characteristics as well as time fixed-effects. The observed price premiums are attributed to distant investors who face higher search costs and are at an information disadvantage compared to investors located in closer proximity to the property.

Perhaps the paper with the most original focus in the 2015 MNM conference was a paper by Thies Lindenthal entitled "Monocentric Cyberspace: The Primary Market for Internet Domain Names". This paper steps from the second to third millennia with a pioneering foray into the economics of cyberspace. The perspective is to view virtual space through the same economic lens and principles as physical space. Lindenthal studies the registration dynamics in the market for virtual space as represented by the market for Internet domain names. Analogous to rent gradient in the classical monocentric city model, the paper finds that domain registrations are constrained by the depletion of unregistered high quality domain names. Scarcity occurs not by running out of physical acres of land, but by running out of desired domain names. But it is easier to expand the supply of space in the virtual world. Supplying alternative domain extensions can relax the shortage in domains in the short term.