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Assessing Asset Pricing in the Commercial Real Estate Sector with Julia Freybote

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Welcome to PDXplores, a Portland state research podcast, featuring scholarship innovations and discoveries, pushing the boundaries of knowledge practice and what is possible for the benefit of our communities and the world.

My name is Julia Freybote and I'm an Assistant Professor of Finance and Real Estate in The School of Business at Portland State.

In my research I focus on asset pricing in commercial real estate markets. With real estate we're actually in the U.S. SEC discipline of finance. So as opposed to finance professors, looking at stocks and bonds and the question of, well how investors determine what they're willing to pay for particular stock, I'm looking at it just for commercial real estate. So think of retail buildings, office buildings, industrial multi-family, hospitality, any income generating property is considered commercial real estate, I am interested in the question of how can you predict prices? How are investors making pricing decisions? How do different factors impact prices? And so at a very high level, I'm focusing predominantly on asset pricing.

One of the biggest issues for investors in the commercial real estate market is data. Data and information. So let me compare that to the stock market. In the stock market If you're an investor you have lots of information available to you. You have information that companies are required to disclose because of SEC requirements, you have information and analysis by analysts by the financial press. There's plenty of information available to make decisions.

In commercial real estate markets the situation is very different in that there is no SEC that is forcing real estate investors and developers to disclose information. You have highly segmented, local and property type specific markets and getting information and data for those is really difficult because there is no central exchange like the New York Stock Exchange where buyers and sellers come together. In commercial real estate markets you really have to go and find the information and often the information for example, to predict where prices are going to go or what type of assets certain types of investors are going to buy, is really difficult and costly to find. So some of the data is not available at all. And then other data needs to be collected, for example, by the company or by the investors themselves and that is as costly and timely.

And so one of the challenges in commercial real estate markets really is the information environment, and this is actually where my research comes in.

My research at a big level looks at how the information environment for commercial real estate investors be improved? So meaning what variables or what data, or what types of information out there that investors can use to really help predict prices better to really have more information in their decision making process when to decide, should we invest, should we not invest?

And so with regards to these types of questions some of my research has looked at, for example, investor sentiment and investor behavior. So this actually goes into the behavioral finance behavioral real estate world where we acknowledge that investors are not fully rational and psychology has an impact on how investors behave and the decisions that they make. And of course that includes pricing decisions. And in finance literature, usually investor sentiment is looked at as something negative, but in commercial real estate, it can be seen as something positive. If there are investors that have a superior level of information because they have more data and are more specialized, they just have more funding to purchase data, why not actually look at what they buy and their sentiment driven decisions with regards to certain asset markets or certain locations, and use that as information in your decision-making.

So my research has looked at sentiment and investor consensus as a source of information. We have looked at for example, the information that is in textual sections of financial statements of major real estate investors, and can you extract information.

And actually a new interest of mine where it's a little bit difficult to get data, even as a researcher, is the whole development of PropTech and real estate FinTech. So technology and commercial real estate are merging and creating new types of data. For example, through beacons installed in buildings or through apps or through artificial intelligence collecting big data sets that can actually help improve investors just getting more data and getting more non-traditional data.

My research really aims at two things. Firstly, I want to make a contribution to the scholarly literature, but the other thing that I want to do is also really have an impact on the commercial real estate community because they are struggling with data. I really hope that my research can be a source of information to them, can be relevant to them and can really have the impact that we as PSU actually are looking to have on our communities, on individuals and organizations outside of PSU.

And interestingly enough, one of my latest research interests, which also ties into this information environment is actually climate risk. If you think about climate risk and climate change, suddenly as a real estate investor, you actually have to assess well, what is the risk that you're facing with regards to the locations of your buildings with regards to portfolio decisions that you make with regards to the physical properties. My research has also been evolving.into also looking for what type of data is out there for real estate investors to actually quantify and measure climate risk. And then what impact does that have on investment decisions? So then investors, after assessing the climate risk of a particular location, decide not to invest there? How does that impact if they already own properties in those locations are they changing their portfolios based on the climate risk of those locations?

And so that has been a relatively recent development of my research, but I'm really excited looking more into that because it's so relevant to our real estate community, not just here in Portland and so I'm excited for the research to come.

My name is Julia Freybote and my research is trying to help investors identify new non-traditional sources of information to really help them assess risks better and make better investment decisions.