

*Market Timing and Investment Selection: Evidence from Real Estate Investors 2010* (Yael Hochberg with Tobias Muhlhofer)

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In this paper, we explore the abilities of institutional portfolio managers to generate abnormal profits in a market that is less efficient than the market for publicly-traded equities, namely the commercial real estate market. We adapt the Daniel, Grinblatt, Titman and Wermers (1997) measures of 'Characteristic Timing' and 'Characteristic Selectivity' to measure public and private real estate investors' ability to successfully time their portfolio weightings and select properties that outperform average properties of similar type. Using data on publicly traded REITS as well as property transactions data for private entities, we find that the vast majority of both public and private portfolio managers exhibit little or negative market timing ability. Public portfolio managers exhibit substantial variation in their ability to successfully select investments, with nearly half exhibiting positive selectivity, while private portfolio managers have near zero selection ability across the board. Both timing and especially selectivity performance exhibits significant persistence in the center of the performance distributions, but not at the top. Due to the nature of the performance distributions of the two measures, this finding leads to possible portfolio allocation strategies to capture positive selectivity only, since little persistence is found among managers that realize positive timing. Variation in managerial ability to time markets or select investment classes does not appear to be related to observable portfolio characteristics, suggesting possible heterogeneity in managerial skill.