Leverage, Timing and Real Estate Performance

Abstract:
With equilibrium pricing of property and debt, leverage will theoretically boost expected return and risk. But the standard method of presenting the theory (in, for example, appraisals) typically fails to discuss how leverage can be managed through cycles of changing property values, and potential mis-pricing of property and debt. The presentation will use simulation methods and evidence on realised returns to investors with varying leverage to argue that, in the out-turn asymmetric timing effects and mis-pricing mean the leveraging property does not pay off in risk-adjusted return or even in absolute return.

Speaker:
Professor Tony Key

Biography:
Tony Key joined the Cass Business School as Professor of Real Estate Economics in January 2003. He had been since 1988 Director of Research at Investment Property Databank, undertaking the development real estate research and information services including a forecasts, market analysis, tenant risk assessment. He produced many commissioned reports and conference papers on issues such as property cycles and investor performance. He also led the introduction of new real estate index and benchmarking services in Scandinavia and Canada. Through the 1970s and 1980s, Tony worked on urban and regional development projects in government, at the Centre for Environmental Studies, and was a Partner of Property Market Analysis.