

The Determinants of Investors Behaviors in REITs: A Review

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Abstract: Real Estate Investment Trusts (REITs) is one of the investment types which offer a decent yield to the investors. REITs can be classified under the family of shares. REITs is traded in stock exchanges and gives investors earnings through price changes and dividends. Though REITs return is higher than other shares, the percentage of REITs investment is still low. It seems like REITs is not a popular investment compared to other investment marketed by the issuing companies and it is a big issue to be tackled. In order to understand the issue, it is good to understand the behaviour of investors. There are only a few researches have been conducted on investor's behaviour and researches on investor's behaviour in REITs are still lacked from conclusive findings. It is time to find out more about investors by conducting investor's behaviour study. Hence, the objective of this study was to identify the determinants of investor's behaviour in choosing REITs as an investment. The findings derived will support the future research in investor's behaviour in REITs. The construct derived from this study will be used in the future REITs behaviour studies. This study is expected to increase the number of literature in investor's behaviour, particularly in REITs.

Key words: Investor, determinants, behavior, REITs, Malaysian REITs

INTRODUCTION

Real Estate Investment Trusts (REITs) has been offered as an investment option in most of the countries in this world. It was first started in 1960 in the United States of America (NAREIT, 2010; Hamzah *et al.*, 2010).

REITs are the investment instruments which enable the movement of funds from investors to the real estate sector of the economy. As investors in REITs, they will enjoy real estate return with the portfolio set by the company as well as maintaining the investment liquidity provided by the secondary market for REIT shares (Corgel *et al.*, 1995).

There are two exclusive features that REIT offered. The first one is its main business is dealing with income-producing properties and the second one is distributed most of its profits as dividends. REIT is traded in stock exchanges and it gives investors earnings through price changes and dividends like any other listed company's shares (Brady, 2013; Sing *et al.*, 2002).

The studies on the performance of REITs have attracted many types of research. Various aspects of REITs performance researches has been discussed but mostly covers the secondary data such as REITs prices and dividend as the subject of interest (Basse *et al.*, 2009;

Higgins and Ng, 2009; Glascock *et al.*, 2004). Conversely, the studies on the behaviour of the investors are still lacked to be found. Therefore, the study on the investor behaviour in REITs is deemed important as it will take into consideration the psychological effect of an investor in making the decision towards their investment (Lai *et al.*, 2013).

Investment decisions are about making investment choices. It is about whether income is spent or saved? If the choice is about saving, the investor must decide on the right place or investment. The investor also needs to decide on a portfolio of assets to own. This makes individual making investing decisions faces a tiring task (Arora and Marwaha, 2014; Ackert and Church, 2006).

Though the investor faces the challenging task to make their investment decisions, the financial services also facing investment innovation. The financial services and the economic sector seems to have highly diversified than ever. This diversification indicates that the individual investors have a wider range of investment instruments to invest in and there is the much greater choice for them on how to invest their money (Arora and Marwaha, 2014; Ackert and Church, 2006; Warren *et al.*, 1990). Whether we aware of it or not, the psychological effects of investors have often been used in the study such as the

financial literacy study. In this study, the researcher wants to know the effect of financial literacy to investor's behaviour. It was found that greater understanding of financial literacy provides higher change to investor's behavior (Allgood and Walstad, 2016). Nonetheless, this study would like to focus on the investor's behaviour in REITs investment. This is because most of the people know that it is not easy to make any decision on property or property based investment because it involved lots of money and procedures.

The objective of this study is to combine the literature in investor's behaviour and to identify the determinants of investor's behaviour in choosing REITs as part of their investment.

Of course, the important part of this paper is reviewing all literature relating to investor's behaviour as well as reviewing the literature on different types of investment instruments. Based on this literature, the new construct on the determinants of REITs investor's behaviour study will be established.

The rationale of conducting this study is to get the suitable and relevant behavioural finance variables to be used in future research for REITs investment. This study is needed as no other research done before related to REITs investment.

Literature review: In this study, the relevant past studies on investor's behaviour will be reviewed. Since, most of the studies focus on the determinants of investor's behaviour in either stock market or other investment instruments, the determinants will be highlighted in order to find the most suitable determinants that can be used in order to determine the constructs of the investor's behaviour in REITs.

The first important determinant is the information seeking habits of an individual investors (Elizabeth and Mezick, 2002; Baldwin and Rice, 1997). The information needed by any investors normally will change as times goes by. The information relating to the company as well as the industry will remain as one of the information needed by any investors. This determinant is still important since investor will need to do their research in order to get the latest information on the subject matters. Information seeking in the security analysis of the particular financial sectors is indirectly related to the characteristics among individual investors (Wood and Zaichowsky, 2004). The other study by Ryan and Judith revealed that three determinants which were investor's confidence, control and risk attitude had a significant effect on investor's behaviour. The respondents were divided into four types of profiling before the

questionnaire was distributed to know the different between clusters. The respondents were divided into clusters because it can be seen that the normal individual investors make mistakes when they process the information (Barber and Odean, 2001).

Griffin and Tversky (1992) stated that overconfidence is at the highest peak for difficult tasks, forecasts with low predictability and for tasks lacking immediate and clear feedback. Overconfidence displays itself in some other significant behavioural preferences such as misconception of knowledge, hindsight bias, self-attribution bias and the misconception of control (Yahyazadehfar *et al.*, 2011).

Yahyazadehfar *et al.* (2011) conducted a study and summarised four determinants that they found which have an impact on the investor's behaviour. Political and psychological factors were found to have an effect on investor's financial decision making. The psychological factors discussed were released news in public media, gossips, broker's comments, affiliate's recommendations, stock exchange authorities' comments, interview with firm's managers and informal board of director's reporting.

The other factors found relevant are economics factors which are the interest rate, inflation rate and investment substitutions and the internal factors discussed such as balance sheet items and extracted financial ratios.

MATERIALS AND METHODS

The financial decision-making of investors is the expected return and it depends on factors such as risk and returns data and stock price trends. The result of this study proved the same determinants in the study conducted by Dreman *et al.* (2001).

Another study by Lai *et al.* (2013) discovered five important determinants on the investor's behaviour study which were price anchoring, overconfidence, herding behaviour, self-control and liquidity preference. All determinants ranked differently for both institutional and individual investors behaviour. The determinants showed a significant relationship with investor's behaviour. This study was using various researcher's findings. Among the researchers were (Gort and Wang, 2010; Garvey and Murphy, 2010; Kim and Nofsinger, 2007). Another explanation of the financial market behaviour is restricted by the expectations that investors are rational and will be able to make decisions that reflect all available information (Bondt, 1998; Harless and Peterson, 1998). The researcher also reviews other determinants such as return potential, liquidity, flexibility, transparency and affordability to

further understand the behaviour of the investors as well as findings the best determinants of investor's behavior (Kumar and Venkatramaraju, 2013). One of the determinants which are important to be examined in order to further understand the investor behaviour is the social ties. The determinant was found significant by Yuxian in her study using social network features. Investors usually tend to invest in a company which they are familiar with (Clark-Murphy and Soutar, 2004, 2005). The study on the social ties and its relationship to investor behaviour can also be found in the past studies by Potter (1971). Nagy and Obenberger found statements about a company's reputation and status which is diligently associated to management quality had a significant influence on investor decisions. Whereas before that Potter (1971), found that the company management was not a major influencing factor on investor behaviour (Table 1).

Kumar *et al.* (2008) did a study on the financial product preferences of Tiruchipalli investors. The respondent of this study needs to rank their product preferences among investment choices, for example, post office savings, bank deposits, gold, real estate, equity investment, the mutual fund. Then, the preferences of the respondents were known based on their attributes, i.e., safety of principal, liquidity, the stability of income, capital growth, tax benefit, inflation resistance and concealability. The authors found that the investors are unlikely to determine the financial product preference. They are needed to make choices depending on what is available and what their own priorities ratings are of the attribute that they want Kumar *et al.* (2008).

RESULTS AND DISCUSSION

Based on the oldest financial behaviour studies, it was proven and retested that there is an effect of informational interpreting and operating to solve personal structured decision-making. It can be stated that not only the financial behaviour tries to indicate that rational behaviour is logical and correct but also it tries to indicate the application of psychological decision-making in forecasting and recognising financial markets (Lintner, 1956). Latest study done by Rinoj (2016) combined both classical and behaviour finance in his study. He concluded that behaviorally based research was crucial to analyse and strategize the property investment (Rinoj, 2016).

Another study done by Amir and Mahmoud found that there are four attitudes of herding behaviour had an impact on an investment decision-making process in the financial market. The factors tested were decision

Table 1: Determinants of investor's behaviour

Author's	Years	Determinants
Mital and Sanjay	2016	Control
Ming-Ming	2013	
Gort and Wang	2010	
Garvey and Murphy	2010	
Kim and Nofsinger	2007	
Murphy and Soutar	2004	
Ryan and Judith	2004	
Barber and Odean	2001	
Harless and Peterson	1998	
Bondt	1998	
Griffin and Tversky	1992	Confidence
Rinoj	2016	
Ming Ming	2013	
Gort and Wang	2010	
Garvey and Murphy	2010	
Kim and Nofsinger	2007	
Murphy and Soutar	2004	
Ryan and Judith	2004	
Barber and Odean	2001	
Harless and Peterson	1998	
Bondt	1998	Price anchoring
Griffin and Tversky	1992	
Rinoj	2016	
Ming-Ming	2013	
Gort and Wang	2010	
Garvey and Murphy	2010	
Kim and Nofsinger	2007	
Bondt	1998	
Harless and Peterson	1998	
Murphy and Soutar	2004	Herding behavior
Amir and Mahmoud	2016	
Ming-Ming	2013	
Gort and Wang	2010	
Garvey and Murphy classical and behaviour finance in his study	2010	
Kim and Nofsinger	2007	
Bondt	1998	
Harless and Peterson	1998	
Murphy and Soutar	2004	
Mital and Sanjay	2016	Liquidity preference
Ming-Ming	2013	
Rajkumar and Venkatramaraju	2013	
Gort and Wang	2010	
Garvey and Murphy	2010	
Kumar <i>et al.</i>	2009	
Kim and Nofsinger	2007	
Bondt	1998	
Harless and Peterson	1998	
Murphy and Soutar	2004	

accuracy, hasty decision, investor mood and overconfidence. One behaviour study by Mital and Sanjay (2016) concluded that there was a significant difference in investor's behaviour between urban and rural investors. The variables tested were liquidity, return, risk, tax savings and process control.

Based on the reviewed readings, all determinants have been tabled to further understand what the variables fulfill the common investor behaviour were. The summary of latest relevant determinants based on the year that the journals were published can be found in Table 1.

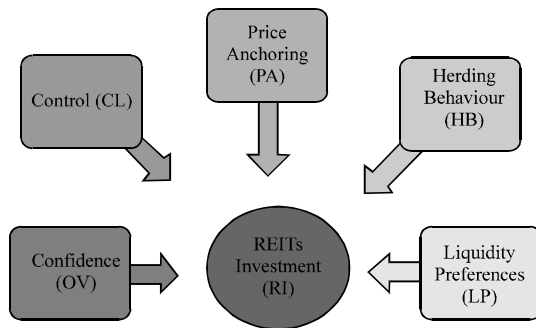


Fig. 1: Determinants in investor's behaviour

The new construct: The new construct suggested for investor's behaviour in REITs are control, confidence, price anchoring, herding behaviour and liquidity preference. These determinants are the frequently used determinants in investor's behaviour by researchers. It can be shown as follows Fig. 1.

CONCLUSION

It can be concluded that to understand the behaviour of an investor is not an easy task. Investor behaviour is the person attitude that will control the person reaction whether to do or not to do anything. This study shows how fast the investors react to the investment decision that they are going to make based on their behaviour. It is understandable that investor's behaviour is needed in order to increase REITs market share.

The above are the construct for all determinants of investor's behaviour which can be used in REITs to get the conclusive result for the study of the behavioural factors of investing in REITs. It is hoped that this review study will ease the process of finding the right determinants for REITs.

The construct found in this study is strictly based on the researcher extensive readings and understandings on the investor's behaviour. Another researcher may find the construct are different than their understanding. Yet, not all determinants can be used at one time, the researcher still needs to do the pilot study or test on the determinants. Among the determinants that are normally used by most of the researchers are control, confidence, price anchoring, herding behavior and liquidity preference. Nevertheless, having all construct of determinants on investor's behaviour is truly a relieved for the researcher in order to conduct the behaviour research in the future. The construct will also help the research to explore the investor's behaviour especially in REITs which has never been explored before.

It is fully recommended that the study on investor's behaviour been done to further analyze the behaviour impact on REITs investment decision by investors. The study will definitely help to increase the number of study in investor's behaviour as well as in REITs. It is also recommended that in the future, the researcher conducts a study on the relationship between financial literacy and the impact of REITs investment decision.

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