

What's wrong with Pittsburgh?

Delegated investors and liquidity concentration

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Abstract

What makes an asset institutional-quality? This paper proposes that one reason is the existing concentration of delegated investors in a market through a liquidity channel. Consistent with this intuition, it documents differences in investor composition across US cities and shows that delegated investors concentrate their investments in cities with higher turnover. It then estimates a search model showing how heterogeneity in liquidity preferences makes some markets more liquid even when assets have identical cash flows. The paper provides evidence for clientele equilibria arising in frictional asset markets and suggests that a liquidity channel may explain divergent paths in city development.

JEL: G11, G12, R33.

Key words: Alternative asset classes, Delegated asset management, Liquidity.

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Appendix A. Not-for-Publication Appendix

Table A.1: Tobit Regressions of Holding Periods: Subperiod Analysis

Notes: 1) Dependent variable is the number of years the property was held for or years since the property was purchased for properties not yet sold. 2) The table presents coefficients from Tobit regression to account for both left and right censoring. 3) Sample is purchases 2001-2015 by delegated and direct investors; sample does not include purchases by REITs or SMALL investors. 4) Standard errors in parentheses. 5) ***, **, and * denote $p < 0.01$, $p < 0.05$, and $p < 0.1$.

	(1)	(2)	(3)	(4)
<i>delegated</i>	-2.30*** (0.30)	-0.76*** (0.17)	-0.72*** (0.17)	-0.34*** (0.11)
<i>office</i>	-3.14*** (0.36)	-1.83*** (0.21)	-0.63*** (0.22)	-0.41*** (0.14)
<i>industrial</i>	-1.45*** (0.39)	-1.54*** (0.22)	-0.012 (0.22)	-0.89*** (0.14)
Observations	3,324	9,022	6,004	17,085
Purchase Years Included	2001-2003	2004-2006	2007-2009	2010-2015
Year FEs	Yes	Yes	Yes	Yes
MSA FEs	Yes	Yes	Yes	Yes
Prop. Size Quintiles	Yes	Yes	Yes	Yes
Prop. Age Quintiles	Yes	Yes	Yes	Yes
Prop. Quality Quintiles	Yes	Yes	Yes	Yes
Pseudo- R^2	2.3%	1.5%	1.1%	3.9%

Table A.2: Robustness of Regressions of Investor Type on Trade Frequency with Property Quality Controls

Notes: 1) ***, **, and * indicate $p < 0.01$, $p < 0.05$, and $p < 0.1$. 2) Dependent variable = 1 if purchase by delegated investor, 0 if purchase by direct. 3) Sample is 2001-2015 purchases by delegated and direct investors. 3) *tfavg_bytype* is the average trade frequency in that MSA and property type. 4) Size Pop Age Qs are quintiles for property age, property size, and MSA population. 5) Prop. Quality Qs are quintiles for RCAs property quality measures. 6) Standard errors clustered by MSA in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>tfavg_bytype</i>	0.0054** (0.0024)	0.014** (0.0067)	0.0052** (0.0024)	0.0053** (0.0022)	0.0054** (0.0025)	0.0056** (0.0025)	0.0061** (0.0028)
<i>pubempshare</i>	-0.0027 (0.0030)	-0.0058 (0.0091)	-0.0027 (0.0030)	-0.0027 (0.0030)	-0.0027 (0.0031)	-0.0024 (0.0029)	-0.0015 (0.0032)
<i>emp_HHI</i>	-0.32 (1.26)	-1.15 (3.98)	-0.34 (1.27)	-0.74 (1.21)	-0.12 (1.42)	-0.68 (1.47)	
<i>estsperemp</i>	-1.96 (1.20)	-5.57 (3.68)	-1.98 (1.20)	-1.48 (1.00)	-1.93 (1.23)	-2.10* (1.20)	
<i>college</i>	0.0022* (0.0013)	0.0064* (0.0039)	0.0022* (0.0013)	0.0031** (0.0014)	0.0025* (0.0014)	0.0020 (0.0015)	0.0029** (0.0012)
<i>occrate_bytype</i>	0.0051** (0.0021)	0.016*** (0.0061)	0.0050** (0.0021)	0.0069*** (0.0020)	0.0050** (0.0021)	0.0052** (0.0020)	0.0054** (0.0022)
<i>rentgr_bytype</i>	-0.00052 (0.00053)	-0.0016 (0.0015)	-0.00051 (0.00053)	-0.0012** (0.00058)	-0.00050 (0.00053)	-0.00053 (0.00052)	-0.00060 (0.00053)
<i>pasttrans_1</i>			0.0086 (0.0076)				
<i>pasttrans_2plus</i>			0.035** (0.016)				
<i>credittenant</i>				0.025*** (0.0075)			
<i>govtenant</i>				0.087** (0.034)			
<i>HHIbuyer</i>					-0.055 (0.17)		
<i>transfertaxrate</i>						0.0041 (0.010)	
<i>pricegrowth_bytype</i>							0.00021 (0.00018)
<i>capgrowth</i>							-0.00046* (0.00025)
Observations	34,906	34,906	34,906	22,582	34,906	34,906	29,603
R^2	11.0%		11.0%	11.4%	11.0%	11.0%	11.4%
Pseudo- R^2		9.3%					
Prop. Type FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Size Pop Age Qs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prop. Quality Qs	Yes	Yes	Yes	Yes	Yes	Yes	Yes