Overconfidence and Corporate Decision Making: Evidence from REIT Property Transactions

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Abstract
Overconfident investors seem to trade more and to perform worse than their peers. In a corporate setting, little is known about overconfident managers' day-to-day investment decisions and how these translate into performance.

Following Campbell et al. (2011), we measure CEO overconfidence through their exercise of corporate stock options, and distinguish REITs led by overconfident CEOs from other REITs. We then combine the REIT information with a sample of almost 8000 commercial real estate transactions. Using a hedonic model, we generate predicted values for all the properties in the sample, and subsequently compare these predictions with the actual purchase and sales prices.

If a REIT led by an overconfident CEO is the buyer in a transaction, we find a price premium of 7.8 to 8.4 percent, depending on the specification. This suggests that these REITs overpay. However, if these REITs are the sellers, we do not find a significant premium, and nor do we find a discount.

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