



## **Examining Personal Financial Advisors' Knowledge, Client Recommendations, and Personal Investments in Private Real Estate and Real Estate Investment Trusts (REITS)**

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## Abstract

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Real estate investment trusts (REITs) have gained considerable investment participation and academic research. However, little is known about personal financial advisors' knowledge, perceived benefits, personal investments, and client recommendations related to public REITs, private REITs, and private real estate investments. This research extends the real estate investment literature by examining all of these unknowns, offering insight into financial advisors' knowledge of real estate investments, client recommendations, personal investment decisions, and financial institution performance resulting from such knowledge and practices. The results show that financial advisors have moderate levels of knowledge public REITs, private REITs, and private real estate investment. It is further shown that the perceived investment benefits translate into personal investments by financial advisors but not necessarily client recommendations. Specifically, financial advisors' perceived benefits of private REITs and public REITs were significantly related to client recommendations but private real estate investments were not. The disconnect between personal investment decisions and client recommendations is interesting and may be due to the capital requirements, property management expertise, and risks associated with private real estate investment. The research also showed that only private REIT recommendations were positively associated with financial institution performance.

## Introduction

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The benefits of adding real estate to investment portfolios are well-documented, including the ability to enhance returns, reduce risk, hedge against inflation, and diversify (Hudson-Wilson et al., 2005; Ross et al., 2007; Salisu et al., 2020; Taderera and Akinsomi, 2020; Viezer, 2010). Naturally, individuals and institutions have historically included real estate investments in their portfolios to maximize performance (Grissom et al., 1987; Hartzell et al., 1987; Hartzell et al., 2014; Miles and McCue, 1982; Oertel et al., 2019). Traditionally, real estate investing has involved purchasing real property for the benefits of capital appreciation and rental income. Real estate investing requires specific market knowledge, significant upfront capital, sustained positive cash flows, and property management expertise. Such requirements and expertise have precluded many individual investors from participating in real estate investing, that is, until the introduction of real estate investment trusts (REITs) (Delcours and Dickens, 2004).

REITs are companies that own or finance real properties that generate income (Beracha et al., 2019). Investing in REITs (indirect ownership), as opposed to purchasing real property (direct ownership), is a way for the average investor to diversify their portfolio with real estate (Anderson et al., 2015; Delcours and Dickens, 2004). REITs can be privately held or publicly traded (Soyeh and Wiley, 2019). Privately held REITs, or private REITs, offer investors the opportunity to invest in real estate assets without direct ownership and management responsibilities but are not traded on a stock exchange. Modeled after mutual funds, publicly traded REITs, or public REITs, offer the same advantages as private REITs but are traded on an exchange (Beracha et al., 2019). In the early 1990s – known as the beginning of the “modern REIT era” – significant regulatory reform made REITs more attractive for individual and institutional investors (Case et al., 2012; Feng et al., 2011). Historically, private REITs and private real estate investments have been the domain of the high net worth investor, whereas public REITs were more accessible to the average investor. In the past decade, innovations in legal structures have created products that cater to both the high net worth and average investor. In order to invest in private REITs, it is necessary to use a qualified intermediary such as a financial advisor in order to conduct suitability analysis of the investment. The evolution and proliferation of the REIT industry over the last several years has resulted in considerable investment participation and academic research (Feng et al., 2011; Letdin et al., 2019). Specifically, Oh and Verstein (2023) suggest that REITs constitute more than 4.5 trillion USD in assets, accounting for roughly 3% of America's wealth.

Although significant academic research has focused on the advantages and disadvantages of REITs (Beracha et al., 2019; Boudry et al., 2020; Case et al., 2012; Chua, 1999; DiBartolomeo et al., 2021; Kuhle, 1987; Ling and Petrova, 2011; Lu et al., 2011; Nelling and Gyourko, 1998; Norman et al., 1995; Ntuli and Akinsomi, 2017; Tom and Austin, 1996), little is known about personal financial advisors' knowledge of REITs as compared to private real estate investment, perceived benefits and risks of REITs versus private real estate investments, client recommendations regarding real estate investments, and personal real estate investment decisions. Although minimum investment requirements and terms differ depending on geography, financial advisors are consulted for real estate investment advice, including both REITs and private direct ownership. Given financial advisors are primary facilitators of personal investing, offering advice on financial management, wealth building and preservation, and retirement planning (Cruciani, 2017; Linnainmaa et al., 2021), it is important to assess their level of knowledge, client recommendations, and personal decisions related to the various real estate investments.



## Literature Review

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### ADVANTAGES & DISADVANTAGES OF PUBLIC REITS

The advantages of public REITs include high returns, portfolio diversification, professional management, and investment liquidity (Beracha et al., 2019; Boudry et al., 2020; Case et al., 2012; Chua, 1999; DiBartolomeo et al., 2021; Kuhle, 1987; Ling and Petrova, 2011; Lu et al., 2011; Nelling and Gyourko, 1998; Norman et al., 1995; Ntuli and Akinsomi, 2017; Tom and Austin, 1996). As compared to stocks and bonds, public REITs have been shown to have superior returns (Beracha et al., 2019; Boudry et al., 2020; Case et al., 2012). In fact, Chua (1999) found portfolio returns were higher with, as opposed to without, real estate investments such as public REITs. Similarly, Boudry et al. (2020) found that portfolios with public REITs benefited from significantly higher risk-adjusted returns as compared to stocks. DiBartolomeo et al. (2021) attribute some of the return benefits of public REITs to diversification. Modern portfolio theory suggests that overall investment risk can be reduced to a certain point via diversification (Markowitz, 1952). As investment risk is comprised of systematic (e.g., market risks) and unsystematic risks (e.g., industry-specific risks) (Ross et al., 2007), diversification can reduce unsystematic risk with the inclusion of public REITs in one's portfolio. The low correlation of public REITs to stocks and bonds has made public REITs ideal for diversification (Miles and McCue, 1982; Miles and McCue, 1984; Ntuli and Akinsomi, 2017; Viezer, 2010; Zerbst and Cambon, 1984). As compared to private real estate investments, public REITs are managed by professional real estate firms with extensive experience, lending to economies of scale and operational efficiency that enhance returns (Beracha et al., 2019). Finally, as compared to private REITs and private real estate investments, public REITs are perceived to offer greater liquidity (Boudry et al., 2020; Lu et al., 2013). According to DiBartolomeo et al. (2021), due to public REITs being actively traded, they benefit investors "by reducing their reliance on the stock market to satisfy liquidity needs" (p. 47). Moreover, many public REITs have mandatory dividend payments, offering further liquidity to investors (DiBartolomeo et al., 2021).

The disadvantages of public REITs include lower returns as compared to private REITs and private real estate investments, higher investment fees, and increased market risk (Boudry et al., 2020; DiBartolomeo et al., 2021; Lu et al., 2013; Ooi, 2009; Riddiough and Wiley, 2022). Lower returns of public REITs are partly due to dividend payment requirements, reducing earnings that could be reinvested (DiBartolomeo et al., 2021). Public REIT returns can also be negatively impacted by investment fees. According to Riddiough and Wiley (2022), as compared to benchmarks, public REITs can underperform by as much as 5% simply due to investment fees and fee structures. Along a similar vein, REITs are typically rewarded in the market if base fees are low and fees are primarily derived from investment success (Ooi, 2009). In economic downturns, public REITs are subject to increased market risk. Specifically, public REITs become more interlinked with the stock market and devoid of the diversification benefits that private REITs and private real estate investments possess (Lu et al., 2013).

### ADVANTAGES & DISADVANTAGES OF PRIVATE REITS

The advantages of private REITs are similar to those of public REITs, including strong returns, portfolio diversification, and professional management expertise (Alcock et al., 2013; Arnold et al., 2021; Beracha et al., 2019; Corgel and Gibson, 2008; Fuerst and Matysiak, 2013; Viezer, 2010; Wilson, 2022). According to Corgel and Gibson (2008), the equity flow in private REITs is near parity with public REITs, underscoring the perceived benefits and accessibility (Wiley, 2018). Private REITs have been described as offering consistently high returns, making them appealing to many investors (Alcock et al., 2013; Arnold et al., 2021; Corgel and Gibson, 2008; Fuerst and Matysiak, 2013; Wilson and Jogia, 2022). Newell et al. (2011) describe private REITs as "a strongly performed asset class on a risk-adjusted basis, as well as providing significant portfolio diversification benefits" (p. 59). As with public REITs, the inclusion of private REITs for the purpose of portfolio diversification historically lowered unsystematic risk (Miles and McCue, 1982; Miles and McCue, 1984; Viezer, 2010; Zerbst and Cambon, 1984), enhancing overall investment performance (Newell et al., 2011). Both public and private REITs offer a level of diversification that the average investor cannot obtain via private real estate investments (Fass et al., 2004). Private REITs, like public REITs, are managed by sophisticated and experienced professionals (Corgel and Gibson, 2008) which translates to efficiencies and performance (Beracha et al., 2019; Ling and Petrova, 2011). The professional management of REITs includes acquiring, managing, and selling real estate, which is an advantage over many individuals who hold private real estate investments.

Private REITs have been critiqued for high service and selling fees, limited liquidity, and lacking the same level of transparency as public REITs (Corgel and Gibson, 2008; Soyeh and Wiley, 2019). Similar to public REITs, private REITs can have large service and acquisition fees that impact investor returns. Unlike public REITs, which are perceived as having high liquidity due to being traded on an exchange (Boudry et al., 2020; Lu et al., 2013), private REITs are viewed as having low liquidity (Soyeh and Wiley, 2019). Although many private REIT "prospectuses contain language about how companies will exit their current form to private investors with a return to capital" (Corgel and Gibson, 2008, p. 134), redemption policies are restrictive and return of capital may be vague. Information on public REITs, as compared to private REITs, is more accessible. However, due diligence reports on private REITs are available and offer insight into the capabilities, competencies, and integrity of the REIT sponsors (Corgel and Gibson, 2008).



## FINANCIAL ADVISOR KNOWLEDGE & EXPERTISE

Although there are many advantages and disadvantages of private real estate investments, public REITs, and private REITs, personal financial advisors need to have a strong understanding of all three investment products. Bodnaruk and Simonov (2015) showed that financial experts, such as financial advisors, have comprehensive market knowledge and have prolonged success due to experience and education. Ample research (Harlow et al., 2020; Kim et al., 2018; Lei & Yao, 2016; Marsden et al., 2011; Moreland, 2018; Winchester et al., 2011) further demonstrates that financial advisors have comprehensive knowledge levels and expertise. Marsden et al. (2011) found that investors that worked closely with financial advisors, as compared to those that did not work with financial advisors, had more diversified portfolios. Similarly, Winchester et al.'s (2011) work showed that individuals that used financial advisors, as compared to those that did not use financial advisors, had greater asset allocations in their portfolios. Harlow et al. (2020) and Kim et al. (2018) found support for economical spending habits among individuals working with a financial advisor. More generally, Lei and Yao (2016) validated the importance of financial advisors, as "households that reported using financial planners demonstrated better portfolio performance than those that did not" (p. 92). Based on the empirical evidence supporting comprehensive knowledge levels of financial advisors and their overall competence in providing value for investors, it is assumed that financial advisors will have the homogenous knowledge levels related to private real estate investments, private REITs, and public REITs.

**HI:** *Personal financial advisors' knowledge will not significantly differ among private real estate investments, public REITs, and private REITs.*

## PERCEIVED BENEFITS, CLIENT RECOMMENDATIONS, & PERSONAL INVESTMENTS

Financial advisors are agents that take on investment decisions for clients (Linnainmaa et al., 2021). These advisors are expected to have expert knowledge of both the risks and benefits of investment decisions and understand the desires and risk tolerances of clients to recommend optimal financial products. As such, all financial advisors and investors need to understand an investment's expected benefits and associated risks (Ainia and Lutfi, 2019). It is well-documented that the perceptions of investment benefits and risks impact investment recommendations and decisions (Antonides and Van Der Sar, 1990; Hoffmann et al., 2015; Nguyen et al., 2016; Nofsinger, 2017; Pompian, 2012; Weber et al., 2005). Accordingly, investments are priced based on weighing the long-term benefits and costs (Lucey and Dowling, 2005), underscoring the universal importance of rewards and risks in finance.

Risk tolerance is an important factor in investment decision-making. Risk tolerance has been repeatedly shown to influence investment decision-making (Cardak and Wilkins, 2009; Hariharan et al., 2000; Nguyen et al., 2016; Yuh and DeVaney, 1996). Specifically, Hariharan et al. (2000) showed that risk tolerant individuals are less likely to invest in risk-free products. Similarly, Cardak and Wilkins (2009) found that risk-intolerance was related to investment participation in lower risk products. Although every individual has a different risk tolerance (Aren and Zengin, 2016; Keller and Siegrist, 2006), greater perceived risk has been shown to be negatively associated with investment allocations.

This suggests that the riskier the investment, the more likely it will be avoided. While perceived benefits have been shown to be positively associated with investment allocations (Alhakami and Slovic, 1994; Shafi et al., 2011), research is limited. Nguyen et al. (2016) specifically call for more research related to the role of perceived benefits and investment decisions, as most research has focused on risks. High-benefit investments are more desirable and are therefore included in more portfolios (Slovic, 2000). This phenomenon – known as reward affect – was first developed in psychology and later applied to finance and investment management (Alhakami and Slovic, 1994; Dreman et al., 2001; Finucane et al., 2000; MacGregor et al., 2000; MacGregor, 2002; Slovic et al., 2007). Research on reward affect in decision-making and investments seeks to explore the role of feelings and emotions of investors and the resulting impacts on investment pricing and decision-making (Lucey and Dowling, 2005).

Research has shown that investors make investment decisions "consistent with the predictions of the affect heuristic" regarding feelings toward the risks and benefits associated with decision-making (Lucey and Dowling, 2005, p. 228). According to this theoretical perspective, investors' feelings of perceived benefits of an investment product should lead them to consistent decisions regarding their own investment decisions. Further in line with this theoretical perspective, based on the fiduciary duty of a financial advisor, defined as the legal and ethical obligation to act in the client's best interest, it is assumed that reward affect theory will also apply to financial advisors' client recommendations. Although financial advisors and clients tend to differ in terms of their risk tolerance (Diacon, 2004; Paetzold et al., 2015), recent research has shown that "advisors typically invest personally just as they advise their clients" (Linnainmaa et al., 2021, p. 587). Earlier research by Cheng et al. (2014) showed a congruence between institutional and private investment in real estate in the early 2000s. Moreover, Dvorak (2015) showed that "advisors' plans are similar to their clients' plans in that they tend to hold identical funds, use the same fund families, and fund categories" (p. 55). As further evidence, Foerster et al. (2017) show that there is little variation between financial advisors' personal investments and client recommendations. According to Baeckström et al. (2021), there is "no agreement on whether advised portfolios are better diversified or have higher returns than self-directed portfolios" (p. 718). The existing literature supports the theory that financial advisors act in the best interest of their clients, as evidence by similar personal investment allocations and weighing the benefits and risks of clients and financial products. This literature and theory leads to hypotheses that advisors' feelings toward perceived investment benefits will be consistent with both their personal investment decisions and their subsequent recommendations to clients. Specifically, the second hypothesis posits that personal financial advisors' perceived benefits of private real estate investments, public REITs, and private REITs will positively influence their personal investment decisions. The third hypothesis asserts that personal financial advisors' client recommendations will be positively related to the perceived benefits of private real estate investments, public REITs, and private REITs.

**H2:** *Personal financial advisors' perceived investment benefits will be positively correlated with personal investment decisions.*

**H3:** *Personal financial advisors' perceived investment benefits will be positively correlated with recommendations to clients.*



## Methods

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Personal financial advisors were recruited using the international survey panel Prolific. Prolific is routinely used to recruit pre-screened participants for business, economics, psychology, and real estate research (Callan et al., 2017; Marreiros et al., 2017; Mosleh et al., 2021; Palan and Schitter, 2018; Wilson et al., 2023). Similar studies have used survey data to assess financial advisors' client recommendations (Nguyen et al., 2016; Nofsinger and Varma, 2007) as well as personal investment decisions (Capon et al., 1996; Deaves et al., 2007; Winchester et al., 2011), providing support for the study design. Individuals were permitted to participate in the study if they were over the age of 18 and worked as full-time personal financial advisors. There were no requirements related to the financial advisors' education, qualifications, financial institution affiliation, or country of residence. Respondents were paid the equivalent of roughly 10 USD per hour to complete the five-minute Qualtrics online questionnaire (Appendix 1) and offered the aggregated results upon the study's completion. The combination of a monetary incentive and offering the study's results has been shown to increase both the number and quality of responses from executives and managers (Cycyota and Harrison, 2006; Diamantopoulos and Schlegelmilch, 1996). All data analyses were performed using SPSS version 27.

### MEASURES

Financial advisors were asked questions about their financial institution including primary operating location (world region), the number of years in business (company age), and the number of clients (company size) as well as their age (advisor age) and personal years of experience as a financial advisor (industry experience). Investment product knowledge was assessed by asking financial advisors five true/false questions about each investment product, including private REITs, public REITs, and private real estate investments. Financial advisors were asked to assess the extent of the perceived benefits and risks of the three investment products based on single-item five-point Likert scales ranging from "to no extent" to "a great extent." Financial advisors were asked single-item measure yes/no questions related to recommending the three investment products to clients and if they would personally invest in them. Single-item measures have been shown to be reliable, valid, and correlated with multi-dimensional measures (Bergkvist and Rossiter, 2007; Leung and Xu, 2013), justifying their inclusion. Moreover, single-item measures are optimal if they improve questionnaire clarity. Investment firm performance was measured by assessing overall performance relative to competitors. Specifically, financial advisors were asked to assess their investment firm's performance based on a five-point Likert scale ranging from "significantly below average" to "significantly above average." As this was a global study of financial advisors, subjective performance measures were selected for uniformity. Subjective measures are commonly used to assess firm performance in management literature, as they have been shown to be valid and reliable (Dawes, 1999; Wall et al., 2004; Wilson and Perepelkin, 2022; Wilson and Liguori, 2022).

## Results

### INDIVIDUAL & CORPORATE DEMOGRAPHICS

Data collection occurred on February 24, 2023. At the time of data collection, 1,503 personal financial advisors were identified as active Prolific survey panelists. After one week, 518 usable responses were received and data collection ended on March 3, 2023. Of the 518 financial advisors, 267 (51.5%) were from the U.K., 61 (11.8%) were from North America, 106 (20.5%) were from South Africa, 76 (14.7%) were from Western Europe, and eight (1.5%) were from Oceania. In terms of gender, 368 (71.0%) identified as male, 146 (28.2%) identified as female, and four (0.8%) preferred not to say. The average years of experience as a full-time financial advisor was 11.35 years, ranging from less than five years to more than 25 years (Table 1). The average age of the financial advisors was 40.12 years, ranging from 18 years to 74 years (Table 2).

With respect to corporate demographics, company age ranged from less than five years in business to over 50 years in business (Table 3). Company size, measured by the number of clients, ranged from fewer than 100 clients to more than 1,000 clients (Table 4).

**TABLE 1: INDUSTRY EXPERIENCE**

SIZE	NUMBER
< 5 years	205 (39.6%)
6 - 10 years	142 (27.4%)
11 - 15 years	64 (12.4%)
16 - 20 years	47 (9.1%)
21 - 25 years	26 (5.0%)
> 25 years	27 (5.2%)
Missing	7 (1.4%)
<b>TOTAL</b>	<b>518 (100%)</b>

**TABLE 2: FINANCIAL ADVISOR AGE**

SIZE	NUMBER
18 - 24 years	61 (11.8%)
25 - 34 years	235 (45.4%)
35 - 44 years	138 (26.6%)
45 - 54 years	56 (10.8%)
55 - 64 years	22 (4.2%)
65 - 74 years	6 (1.1%)
Missing	0 (0%)
<b>TOTAL</b>	<b>518 (100%)</b>

**TABLE 3: COMPANY AGE**

SIZE	NUMBER
< 5 years	45 (8.7%)
6 - 10 years	66 (12.7%)
11 - 20 years	91 (17.6%)
21 - 30 years	79 (15.3%)
31 - 40 years	29 (5.6%)
41 - 50 years	25 (4.8%)
> 50 years	183 (35.3%)
<b>TOTAL</b>	<b>518 (100%)</b>

**TABLE 4: NUMBER OF CLIENTS**

SIZE	NUMBER
< 100	78 (15.1%)
101 - 200	46 (8.9%)
201 - 300	34 (6.6%)
301 - 400	20 (3.9%)
401 - 500	25 (4.8%)
501 - 600	19 (3.7%)
601 - 700	3 (0.6%)
701 - 800	12 (2.3%)
801 - 900	4 (0.8%)
901 - 1,000	17 (3.3%)
> 1,000	260 (50.2%)
<b>TOTAL</b>	<b>518 (100%)</b>



### INVESTMENT PRODUCT KNOWLEDGE

Based on the five true/false questions for each of the three investment products (private REITs, public REITs, and private real estate investments), investment product knowledge variables were created by summing the number of correct questions. Investment product knowledge was the highest for private real estate investments and lowest for public REITs (Table 5). The results of a one-way analysis of variance (ANOVA) showed that there was a significant difference ( $F = 20.255$ ,  $p < 0.001$ ) among the investment product knowledge scores (Table 6). The post-hoc Tukey test revealed that financial advisors had significantly greater knowledge of private real estate investments as compared to private and public REITs (Table 7).

**TABLE 5: INVESTMENT KNOWLEDGE DESCRIPTIVES**

INVESTMENT	N	MEAN	STD. DEVIATION	STD. ERROR	MIN	MAX
Private REIT	518	3.6434	0.42798	0.01880	0	5
Public REIT	518	3.6256	0.41209	0.01811	0	5
Private Investments	518	3.7775	0.42023	0.01846	0	5

**TABLE 6: INVESTMENT KNOWLEDGE ANOVA**

	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Groups	7.151	2	3.575	20.2550	0.000
Within Groups	273.790	1,551	0.177		
<b>TOTAL</b>	<b>280.941</b>	<b>1,553</b>			

**TABLE 7: INVESTMENT KNOWLEDGE POST-HOC TUKEY HSD**

(I) INVESTMENT	(J) INVESTMENT	DIFFERENCE (I-J)	STD. ERROR	SIG.	95% C.I. LOWER	95% C.I. UPPER
Private REIT	Public REIT	0.01784	0.02611	0.773	-0.0434	0.0791
	Private Investments	-0.13415*	0.02611	0.000	-0.1954	-0.0729
Public REIT	Private REIT	-0.01784	0.02611	0.773	-0.0791	0.0434
	Private Investments	-0.15199*	0.02611	0.000	-0.2132	-0.0907
Private Investments	Private REIT	0.13415*	0.02611	0.000	0.0729	0.1954
	Public REIT	0.15199*	0.02611	0.000	0.0907	0.2132

\* $p < 0.05$



### PERCEIVED INVESTMENT BENEFIT

Private REITs were perceived to have the greatest benefit as compared to public REITs and private real estate investments (Table 8). The ANOVA showed that there was a significant difference ( $F = 42.955, p < 0.001$ ) in the perceived benefit among the three investment products (Table 9). The post-hoc Tukey test showed that financial advisors perceived private REITs and private real estate investments to have significantly greater benefit than public REITs (Table 10).

**TABLE 8: PERCEIVED INVESTMENT BENEFIT DESCRIPTIVES**

INVESTMENT	N	MEAN	STD. DEVIATION	STD. ERROR	MIN	MAX
Private REIT	518	3.4266	0.76266	0.03351	1	5
Public REIT	518	3.0328	0.76485	0.03361	1	5
Private Investments	518	3.4228	0.82796	0.03638	1	5

**TABLE 9: PERCEIVED INVESTMENT BENEFIT ANOVA**

	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Groups	53.040	2	26.520	42.955	0.000
Within Groups	957.566	1,551	0.617		
<b>TOTAL</b>	<b>1,010.606</b>	<b>1,553</b>			

**TABLE 10: PERCEIVED INVESTMENT BENEFIT POST-HOC TUKEY HSD**

(I) INVESTMENT	(J) INVESTMENT	DIFFERENCE (I-J)	STD. ERROR	SIG.	95% C.I. LOWER	95% C.I. UPPER
Private REIT	Public REIT	0.39382*	0.04882	0.000	0.2793	0.5084
	Private Investments	0.00386	0.04882	0.997	-0.1107	0.1184
Public REIT	Private REIT	-0.39382*	0.04882	0.000	-0.5084	-0.2793
	Private Investments	-0.38996*	0.04882	0.000	-0.5045	-0.2754
Private Investments	Private REIT	-0.00386	0.04882	0.997	-0.1184	0.1107
	Public REIT	0.38996*	0.04882	0.000	0.2754	0.5045

\*  $p < 0.05$



### PERCEIVED INVESTMENT RISK

Private real estate investments were perceived to have the greatest risk as compared to private and public REITs (Table 11). The ANOVA showed that there was a significant difference ( $F = 595.865, p < 0.001$ ) in perceived risk (Table 12). The post-hoc Tukey test showed that the perceived risk differed significantly among all three investments (Table 13). Specifically, private real estate investments were perceived as riskier than both private and public REITs. Additionally, private REITs were perceived as riskier than public REITs.

**TABLE 11: PERCEIVED INVESTMENT RISK DESCRIPTIVES**

INVESTMENT	N	MEAN	STD. DEVIATION	STD. ERROR	MIN	MAX
Private REIT	518	3.4633	0.93171	0.04094	1	5
Public REIT	518	2.3938	0.92636	0.04070	1	5
Private Investments	518	4.2703	0.76450	0.03359	1	5

**TABLE 12: PERCEIVED INVESTMENT RISK ANOVA**

	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Groups	917.905	2	458.952	595.865	0.000
Within Groups	1,194.625	1,551	0.770		
<b>TOTAL</b>	<b>2,112.530</b>	<b>1,553</b>			

**TABLE 13: PERCEIVED INVESTMENT RISK POST-HOC TUKEY HSD**

(I) INVESTMENT	(J) INVESTMENT	DIFFERENCE (I-J)	STD. ERROR	SIG.	95% C.I. LOWER	95% C.I. UPPER
Private REIT	Public REIT	1.06950*	0.05453	0.000	0.9416	1.1974
	Private Investments	-0.80695*	0.05453	0.000	-0.9349	-0.6790
Public REIT	Private REIT	-1.06950*	0.05453	0.000	-1.1974	-0.9416
	Private Investments	-1.87645*	0.05453	0.000	-2.0044	-1.7485
Private Investments	Private REIT	0.80695*	0.05453	0.000	0.6790	0.9349
	Public REIT	1.87645*	0.05453	0.000	1.7485	2.0044

\*  $p < 0.05$



#### **PERCEIVED BENEFIT & FINANCIAL ADVISOR PERSONAL INVESTMENT**

A series of regression analyses were performed to examine the impact of financial advisors' perceived benefits and personal investment decisions (Table 14). All of these analyses included financial advisor age and experience as control variables. The results of the first regression model showed that the perceived benefit of private REIT was positively correlated with investments in private REITs ( $\beta = 0.132$ ,  $p = 0.003$ ). The results of the second regression model showed that the perceived benefit of public REIT was positively correlated with investments in public REITs ( $\beta = 0.166$ ,  $p < 0.001$ ). The third regression analysis also showed that there was a positive and significant relationship between the perceived benefit of private real estate investments and investments in private real estate ( $\beta = 0.114$ ,  $p = 0.010$ ).

#### **PERCEIVED BENEFIT & CLIENT INVESTMENT RECOMMENDATION**

Three regression analyses were performed to examine the impact of financial advisors' perceived benefits and client investment recommendations (Table 14). The fourth regression analysis showed that the perceived benefit of private REIT was positively correlated with private REIT recommendations ( $\beta = 0.103$ ,  $p < 0.021$ ). Similarly, regression model five showed the perceived benefit of public REIT to be correlated with client investment recommendations in public REITs ( $\beta = 0.186$ ,  $p < 0.001$ ). Unlike the previous results, the perceived benefit of private real estate investments was not found to impact private real estate investment recommendations ( $\beta = 0.070$ ,  $p = 0.115$ ).

#### **CLIENT INVESTMENT RECOMMENDATION & FIRM PERFORMANCE**

Regression models seven, eight, and nine examined the effects of investment advisors' client investment recommendations and firm performance while controlling for firm age and size. The seventh regression model showed that private REIT recommendations were positively correlated with firm performance ( $\beta = 0.100$ ,  $p = 0.019$ ). Regression model eight differed, in that it showed public REIT recommendations as negatively correlated with firm performance ( $\beta = -0.091$ ,  $p = 0.032$ ). The final regression model showed that the relationship between private real estate investment recommendations and firm performance was not statistically significant ( $\beta = 0.011$ ,  $p = 0.793$ ).

**TABLE 14: REGRESSION ANALYSES**

MODEL	R	R <sup>2</sup>	DV	IV(S)	$\beta$	STD. ERROR	$\beta$	t	p
1	0.150	0.023	Private REIT Investment	(Constant)	-0.109	0.138		-0.789	0.430
				Private REIT Benefit	0.096	0.032	0.132	2.997	0.003
				Advisor Age	-0.013	0.023	-0.036	-0.563	0.574
				Advisor Experience	-0.008	0.017	-0.030	-0.467	0.641
2	0.200	0.040	Public REIT Investment	(Constant)	-0.408	0.178		-2.286	0.023
				Public REIT Benefit	0.172	0.045	0.166	3.813	0.000
				Advisor Age	0.047	0.030	0.011	0.175	0.861
				Advisor Experience	0.004	0.045	0.100	1.573	0.116
3	0.129	0.017	Private Investment	(Constant)	0.166	0.167		0.995	0.320
				Private Investment Benefit	0.102	0.040	0.114	2.589	0.010
				Advisor Age	-0.037	0.031	-0.077	-1.194	0.233
				Advisor Experience	0.012	0.022	0.036	0.563	0.574
4	0.107	0.011	Recommend Private REIT	(Constant)	-0.071	0.124		-0.570	0.569
				Private REIT Benefit	0.065	0.028	0.103	2.310	0.021
				Advisor Age	-0.010	0.022	-0.028	-0.440	0.660
				Advisor Experience	0.002	0.016	0.008	0.125	0.901
5	0.223	0.050	Recommend Public REIT	(Constant)	-0.453	0.182		-2.487	0.013
				Public REIT Benefit	0.198	0.046	0.186	4.292	0.000
				Advisor Age	0.071	0.030	0.149	2.340	0.020
				Advisor Experience	-0.018	0.022	-0.052	-0.815	0.415
6	0.111	0.012	Recommend Private Investment	(Constant)	0.275	0.179		1.536	0.125
				Private Investment Benefit	0.067	0.042	0.070	1.579	0.115
				Advisor Age	-0.053	0.030	-0.115	-1.777	0.076
				Advisor Experience	0.021	0.021	0.063	0.974	0.331
7	0.260	0.068	Firm Performance	(Constant)	3.325	0.072		45.933	0.000
				Recommend Private REIT	0.196	0.083	0.100	2.356	0.019
				Firm Age	0.050	0.016	0.158	3.185	0.002
				Firm Size	0.019	0.008	0.116	2.340	0.020
8	0.257	0.066	Firm Performance	(Constant)	3.408	0.076		44.600	0.000
				Recommend Public REIT	-0.125	0.059	-0.091	-2.144	0.032
				Firm Age	0.051	0.016	0.159	3.218	0.001
				Firm Size	0.019	0.008	0.117	2.367	0.018
9	0.240	0.058	Firm Performance	(Constant)	3.345	0.076		44.272	0.000
				Recommend Private REIT	0.016	0.061	0.011	0.263	0.793
				Firm Age	0.051	0.016	0.161	3.243	0.001
				Firm Size	0.019	0.008	0.114	2.282	0.023

## Discussion

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This study contributes to the limited research on financial advisors' perceptions and participation in public and private REIT investments. The research explores several unanswered questions related to financial advisors' knowledge of real estate investments, perceived benefits and risks of real estate investments, the relationship between perceived investment benefits and risks as it relates to personal investment decisions and client recommendations, and the relationship between real estate investment recommendations and investment firm performance.

The first hypothesis was not supported, as financial advisors' knowledge significantly differed among the three investments. Specifically, financial advisors had greater knowledge of private real estate investments as compared to both private and public REITs. Given the proliferation of investment participation in REITs (Feng et al., 2011; Letdin et al., 2019), this finding is unexpected and interesting. It suggests that despite the securitization of real estate investments and the demand for them from both institutional and individual investors, financial advisors may still require further education and expertise related to REITs. The lack of significant difference between financial advisors' knowledge of public and private REITs is also noteworthy, as private REITs have been described as somewhat vague as compared to public REITs (Corgel and Gibson, 2008). Although financial advisors had greater knowledge of private real estate investments as compared to public and private REITs, overall investment knowledge was moderate. Based on the true/false questions, financial advisors' average knowledge accuracy scores were 75.6% for private real estate investments, 72.9% for private REITs, and 72.5% for public REITs. This points to a need for a greater understanding of these investments among personal financial advisors. There are several economic implications related to moderate levels of knowledge among financial advisors. First, investment performance may be negatively impacted by the expertise of the financial advisors. Second, investors may be subject to more risk if financial advisors lack the expertise to fully assess them. Third, moderate levels of knowledge among financial advisors may impede economic progress and wealth accumulation or preservation. Finally, there may be economic rationale for greater financial advisor education as it relates to real estate investments.

Aside from knowledge, perceived benefits and risks impact both investment recommendations and decisions (Antonides and Van Der Sar, 1990; Hoffmann et al., 2015; Nguyen et al., 2016; Nofsinger, 2017; Pompian, 2012; Weber et al., 2005). The results showed that financial advisors perceived private REITs to have significant advantages over public REITs. Additionally, financial advisors perceived private real estate investments to have significant benefits over public REITs. These findings are congruent with literature that shows public REITs can have lower returns, higher fees, and increased market risk as compared to private REITs (Boudry et al., 2020; DiBartolomeo et al., 2021; Lu et al., 2013; Ooi, 2009; Riddiough and Wiley, 2022). In terms of investment risk, financial advisors perceived private real estate investments as having the greatest risk as compared to public and private REITs. This is not surprising, as private real estate investments require significant capital and property management expertise for market entry and success (Delcours and Dickens, 2004), adding to the overall investment risk. Comparing the two REIT investments, financial advisors perceived private REITs to have more risk as compared to public REITs. This is similar to the literature that evaluates private REITs as riskier than public REITs due to liquidity and transparency issues (Boudry et al., 2020; Corgel and Gibson, 2008;

Lu et al., 2013; Soyeh and Wiley, 2019). However, in balancing both the benefits and risks of REITs, private REITs seem to be perceived as having more benefit and risk as compared to public REITs. Ultimately, the choice between a public and private REIT comes down to preference, as private REITs are seen to have more benefit and risk, whereas public REITs are perceived to have less benefit and risk.

Financial advisors' perceived investment benefits were used to explore how they impacted their own investment decisions and client recommendations. The second hypothesis was supported, as financial advisors' perceived benefits of private REITs, public REITs, and private real estate investments were positively correlated with their personal investments in the three products. This was expected, as investments with perceived benefits are more desirable and associated with investment allocations (Alhakami and Slovic, 1994; Shafi et al., 2011; Slovic, 2000). More generally, support for the second hypothesis affirms the role of reward affect theory in personal finance decision-making (Alhakami and Slovic, 1994; Dreman et al., 2001; Finucane et al., 2000; MacGregor et al., 2000; MacGregor, 2002; Slovic et al., 2007). The third hypothesis was only partially supported, as the perceived benefit of public and private REITs were significantly related to client recommendations, but private real estate investments were not. Although this contrasts the literature that suggests financial advisors' personal investments and client recommendations are congruent (Baekström et al., 2021; Cheng et al., 2014; Diacon, 2004; Dvorak, 2015; Foerster et al. 2017; Linnainmaa et al., 2021; Paetzold et al., 2015), it is likely an outcome of the perceived risk associated with private real estate investments. Given risk tolerances are higher among financial advisors as compared to investors, financial advisors may be reluctant to recommend private real estate investments due to their risks. Despite the perceived benefits of private real estate investments, financial advisors may not recommend it to clients due to the necessary capital and expertise required for success (Delcours and Dickens, 2004).

The set of regression analyses showed that private REIT recommendations were positively correlated with overall investment firm performance relative to competitors. Interestingly, public REIT recommendations were negatively correlated with overall investment firm performance. Private real estate investment recommendations were not significantly related to investment firm performance. This finding can be interpreted in two ways. First, it could be that financial advisors are reluctant to recommend this investment, due to the lack of compensation or for other reasons such as risk, reducing the overall private real estate investment recommendations. Second, it could be that the public and private REITs allow for more diversification in the investment portfolio and enhance returns, reduce risk, and increase fees, translating into enhanced firm performance. Regardless, the results show that private REITs are positively correlated with firm performance. This finding adds to the limited research on private REITs that demonstrates they are desirable investments with many benefits to individuals and institutions. The economic implications of this finding are extensive. The performance benefits of REITs to investment firm performance are likely to increase capital allocations, investor interest, and portfolio construction. The increased interest and participation in private REITs may require increased financial advisor education and knowledge and may be a catalyst for greater regulatory scrutiny.

## Limitations

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There are several limitations of this research including the sample of financial advisors, experience and tenure of financial advisors, the use of subjective and single-item measures, the cross-sectional nature of the data, low  $R^2$  in regression results, timing of survey dissemination, and the limited number of investment products examined. Prolific was used to recruit full-time personal financial advisors in various countries across the world. Although participants received a relatively low monetary incentive for participating in the study, they were also offered access to the study's aggregated results. Previous research has shown that offering managers and executives such information increases the quality and quantity of responses (Cycyota and Harrison, 2006; Diamantopoulos and Schlegelmilch, 1996). Given two-thirds of the participants had less than 10 years of experience, the findings may differ among personal financial advisors with more experience or specialized real estate knowledge. Future research could replicate this study with personal financial advisors with longer tenures. Although subjective measures were utilized in this study, they have been shown to be reliable, valid, and correlated with objective measures (Dawes, 1999; Wall et al., 2004; Wilson and Perepelkin, 2022; Wilson and Liguori, 2022). Similarly, single-item measures have been found to be reliable, valid, and correlated with multi-dimensional items (Bergkvist and Rossiter, 2007; Leung and Xu, 2013). Future studies could include objective measures of

performance, multi-dimensional measures of investment knowledge, and multi-dimensional measures of perceived investment benefits and risks. Another limitation of the research is the cross-sectional nature of the data, as it is not longitudinal. Given real estate is a long-term investment decision, perhaps some of the performance benefits of private real estate investment are not realized by the investment firms, explaining the lack of significance between private real estate investment recommendations and investment firm performance. The low  $R^2$  in many of the regression analyses is a limitation of the study, as other variables are likely to explain client recommendations, personal investments, and firm performance. However, the effect sizes are considered "medium" and standard for management and psychology research (Funder and Ozer, 2019; Gignac and Szodorai, 2016). As with all research, the timing of data collection and results are influenced by the current market dynamics. Finally, this study was limited to the examination of three investment products including private REITs, public REITs, and private real estate investments. There are many other investment products, real estate and non-real estate related, that could be considered in future research and as comparatives. It is acknowledged that the inclusion of other investment products (e.g., stocks) may impact the results and implications of this study.

## Conclusion

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This study has several important contributions to real estate investment literature and illuminates some concerning issues. This study of 518 personal financial advisors from five regions of the world (U.K., North America, South Africa, Western Europe, and Oceania) showed that financial advisors have moderate levels of knowledge related to the various real estate investments. This is an interesting finding, as these individuals are managing client money and directing their own funds based on average knowledge levels. Perceived benefits differed among the three real estate investments, with both private REITs and private real estate investments being significantly higher than public REITs. Perceived investment risks also differed among the three real estate investment products, with private real estate investments being significantly higher than private and public REITs and private REITs being significantly higher than public REITs. The correlations between perceived investment benefits and personal investments in the various products were not surprising, yet when it came to client recommendations the results were inconsistent. Specifically, the relationship between the perceived benefit of private real estate investments was not correlated with client recommendations. Explanations for the lack of significance are likely due to client capital requirements, property management expertise, and risks associated with the investment. It appears that there are positive implications for investment firms that invest in private REITs, as private REIT recommendations were found to be correlated with overall performance. The lack of REIT research makes these findings extremely novel but also underscores the need for more insight into the observed phenomena.

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