

Real estate investment decisions in COVID-19 crisis: the effect of perception and behavioral biases

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Abstract

Purpose – This study aims to examine the interconnectedness between investors' perceptions of assets and their behavioral factors with investment decisions during the COVID-19 pandemic in the real estate business in Pakistan. In this regard, this study predicted investment decisions using individuals' perceptions of the asset (perceived asset quality, perceived asset price and perceived asset value [PAV]), and behavioral biases (overconfidence [OC], herding [HD], disposition effect [DE] and risk aversion [RA]).

Design/methodology/approach – This study used a survey-based instrument to gather a total of 189 usable samples. The sample data were analyzed using partial least square structural equation modeling.

Findings – The findings of this study indicated that PAV, OC and HD significantly predicted the investment decision, whereas DE and RA had an insignificant impact on investment decisions in the real estate business. In addition, this study found that PAV is the most important factor to predict investment decisions in real estate during the COVID-19 crisis.

Originality/value – The authors are certain that the study findings reinforce policy implications for regulators, policymakers and financial institutions. The study findings are also useful and relevant if the real estate sector experiences a crisis in the future.

Keywords Housing, Developing countries, Housing affordability

Paper type Research paper



1. Introduction

Real estate sectors, including residential and commercial real estate as well as the mortgage market, are facing unheard-of difficulties, similar to those faced by many other industries during the pandemic, as people are leaving their residences in cities, fewer commercial and residential properties are being sold and households are having trouble paying off their mortgages (Balemi *et al.*, 2021; Ali *et al.*, 2017). Understanding the impact of the pandemic on real estate industry is important to economists and business professionals. Due to the industry's enormous economic potential, local Pakistani investors prefer investing in real estate. The Punjab Affordable Housing Program, the Punjab Urban Land Systems Enhancement Project and the Pakistan Housing Finance Project were all given \$435mn in