

REPUTATION AND ASSET PRICES: EVIDENCE FROM TRUMP REAL ESTATE

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Introduction

Trump's election in November 2016 was one of the biggest political shocks in the last decades further fueling the bipartisanship in US politics.

Already during the election campaign, Trump's brand reputation got under fire in unprecedented fashion.

We investigate the impact of reputation on asset prices comparing the evolution of sales prices of Trump-branded properties in the Democratic-leaning area Manhattan and the Republican-leaning area Miami.

Did changes in the public perception of Trump spill over to the real estate markets?

Methodology

Unprecedented series of controversies during Trump's election campaign
→ Difference-in-Differences analysis.

Goal: Analyze potential price discounts to Trump-branded properties after the first controversy/reputation shock.

Treatment group: Condominiums and apartments located in Trump-branded properties in Manhattan and Miami, respectively, i.e., properties listed on Trump's webpage with clear brand salience.



Control group: Condominiums and apartments in non-Trump-branded properties in the respective areas.

Treatment date: June 25, 2015

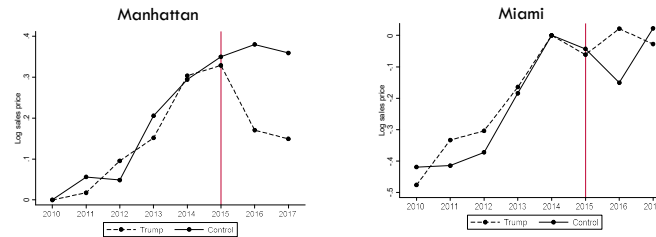


Difference-in-Differences regressions:

- Dependent variable: log sales price
- Explanatory variables: treatment dummy, post dummy, and log size of the property

Results

Evolution of sales prices over time:



This figure plots trends of log sales prices on an annual frequency. The dashed lines show average sales prices of Trump-branded units, the solid lines depict average sales prices of other condominiums and apartments in Manhattan and Miami, respectively. The vertical line highlights the year 2015, in which the first reputation shocks took place.

Descriptive evidence:

- We observe a similar evolution of sales prices of Trump- and non-Trump-branded units prior to the first scandals associated with his run for president in 2015.
- After 2015, we see that prices of Trump-branded units in Manhattan decreased but that they increased in Miami (both in comparison to the control group).

Difference-in-Differences evidence on price discounts:

	Manhattan	Miami
Time-invariant effect of Trump-branding on sales prices		
Post	-0.013 (0.008)	-0.018 (0.035)
Trump-branded	0.350*** (0.099)	0.103*** (0.019)
ln(Size)	0.771*** (0.032)	0.600*** (0.157)
Post x Trump-branded	-0.176*** (0.030)	-0.001 (0.016)
Time-variant effect of Trump-branding on sales prices		
Post x Trump-branded x 2015	-0.086* (0.043)	-0.131*** (0.045)
Post x Trump-branded x 2016	-0.215*** (0.061)	0.141*** (0.055)
Post x Trump-branded x 2017	-0.208*** (0.052)	-0.080** (0.038)
Adjusted R ²	0.625	0.512
Observations	46,215	46,175

This table provides coefficient estimates of Difference-in-Differences regressions with the log sales price of house price transactions as dependent variable. The dummy variable "Post" indicates that a given transaction was made after June 25, 2015 (i.e., after the first reputation shock). In the panel "Time-variant effect of Trump-branding on sales prices" the post-treatment period is split into years. The dummy variable "Trump-branded" (i.e., the treatment dummy) indicates that the underlying unit is Trump-branded. The interaction between both dummies is the treatment effect. We include both, year-quarter time and zip-code location fixed effects. Standard errors (in parentheses) are two-way clustered over zip-codes and year-quarters. *, **, and *** indicate significance on the 10%, 5%, and 1% level, respectively.

Insights:

- Transforming the (log) treatment effect to sales price changes yields 16.1% price discount to Trump-branded properties in Manhattan for 2015-2017.
- We find price discounts in 2015 and 2017 and a price recovery in 2016 in Miami.
- Differences in evolution of sales prices are consistent with differences in public perception in Manhattan and Miami, respectively.
 - Trump's perception in the Democratic-leaning area Manhattan was predominantly negative.
 - Trump won the 2016 general election in Florida indicating that his general perception was predominantly positive. Coinciding with the decrease in prices in 2017, Trump's net approval rating significantly dropped since taking office in January 2017.

Conclusions

Analysis of the effect of reputation change on asset prices utilizing Trump's unexpected announcement of candidacy for US president and the highly controversial election campaign further fueling the bipartisanship in US politics.

Our results document

- the importance of spatial variation for reputation effects,
- that the partisan divide in US politics can spill over to asset prices,
- that discounts from reputation loss can be short-lived.

Outlook

We investigate the impact of removing the labels from Trump-branded properties on sales prices of condominiums and apartments located inside these properties.

We are using over 3 million English tweets posted by users (self-)located in Miami and Manhattan to

- investigate whether our treatment effects are reflected in changes in the public opinion (using emotion analysis),
- quantify the degree of reputation change,
- analyze which emotions (sadness, anxiety, anger) are particularly telling.

Preliminary results:

- Past anger towards Trump can explain half of the price discount in Manhattan.
- Anger can also explain price movements of Trump-branded properties in Miami.

Contact Information

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