Alternative Investing

Risk Adjusted Performance of Middlemen in Housing Markets

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We study the risk-adjusted returns of asset flippers operating in the housing market of Los Angeles County. Experienced asset flippers earn sizable abnormal performance with respect to both investments in the U.S. stock market and in a passive mutual fund tracking a representative U.S. REIT index. Abnormal performance is positive even after additionally adjusting returns for an upper-bound estimate of the additional compensation for the specific risks faced by real estate investors. We then show that experienced flippers outperform their inexperienced competitors when trading comparable houses over the same time frame. Finally, we provide evidence of decreasing returns to the scale of individual flippers' asset portfolios.

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