

Resource Combination and Security Price Reactions: The Case of Real Estate Joint Ventures

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Abstract

Joint ventures are a commonplace occurrence in the U.S. economy. In particular, firms undertaking real estate projects frequently use the joint venture as a method of combining resources. This paper examines security price reactions around real estate joint venture announcements. The evidence indicates that significant increases in the values of the participating firms occur within a two-day announcement period. The changes in values appear to be due principally to the amount of information about the local real estate market possessed by the participating firms, and an information signal about the potential financial viability of the proposed project conveyed by the presence of anchor tenants. While the results are important in their own right, they are also significant in another respect. They seem to confirm the efficiency with which the capital market processes information about the markets for trading real estate claims.

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