

# Leverage and NAV discount: evidence from Italian real estate investment funds

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## Purpose

The closed-end fund puzzle is one of the most famous unsolved issues in financial economics and as such, over time, it has raised the interest of many authors also in the real estate field. The aim of this paper is both to determine whether the effect of leverage on net asset value (NAV) discount is biased by an accounting effect as well as to investigate the determinants of NAV discount by means of the “rational” approach.

## Design/methodology/approach

The hypotheses are tested by using both the traditional formula as well as a new, unlevered one to calculate the NAV discount. A best subset analysis is carried out to ascertain the better set of determinants.

## Findings

The main result of the analysis is that the influence of leverage on the NAV discount is biased by an accounting effect while other factors are highly significant.

## Research limitations/implications

This paper is a starting point for additional research on some of the identified factors as well as on similar samples for which a wider set of data is available.

## Originality/value

The homogeneity of the Italian real estate investment funds sample, which is not biased by any fiscal effect, and the use of an unlevered formula to calculate NAV discount are important factors when trying to understand the determinants of NAV discount.

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**Keywords:** [Assets](#), [Gearing](#), [Real estate](#), [Discounts](#), [Investment funds](#),

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