HOW SHARED INVESTMENT EXPECTATIONS EMERGE IN COMMERCIAL REAL ESTATE: TOWARDS A THEORY-BUILDING FRAMEWORK OF COLLECTIVE INVESTMENT BEHAVIOUR

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Abstract

Commercial real estate (CRE) investment decisions are made under conditions of imperfect information, limited market transparency and substantial uncertainty. While behavioural finance has shown that investment decisions are influenced by heuristics, social interactions and collective expectations, less attention has been devoted to understanding how shared investment expectations emerge within the professional CRE environment. This paper presents a theory-building systematic literature review integrating CRE economics, behavioural finance, herd behaviour, information diffusion and narrative economics. The review develops a conceptual framework explaining how information is produced, disseminated and collectively interpreted among professional market participants. Rather than treating herd behaviour as an isolated behavioural bias, the framework conceptualises it as a potential outcome of shared investment expectations. By identifying a theoretical gap linking information dissemination, collective interpretation and expectation formation, the study provides a foundation for subsequent empirical research on the Polish CRE market and contributes to behavioural commercial real estate research.

Keywords: Commercial real estate, herd behaviour, behavioural finance, information diffusion, investment expectations, narrative economics

Introduction

Commercial real estate (CRE) constitutes a major asset class for institutional and private investors and plays an important role in capital allocation within modern economies. Investment decisions involve heterogeneous assets, long investment horizons and substantial capital commitments, making reliable market information central to the investment process. Unlike publicly traded securities, however, commercial real estate is characterised by infrequent transactions, limited transparency, information asymmetry and the absence of continuous price discovery. Consequently, investors operate under conditions of considerable uncertainty, relying on incomplete, dispersed and imperfectly comparable information when making investment decisions.

These characteristics have traditionally been examined within commercial real estate economics, which emphasises market fundamentals, valuation and the efficient processing of available information. Yet the structural features of CRE markets suggest that investment decisions depend not only on objective market conditions but also on how market participants acquire, interpret and exchange information. Understanding how investment expectations are formed under such conditions therefore represents an important research challenge.

Classical investment theory assumes that investors process available information rationally and make decisions that maximise expected utility. Behavioural economics challenged this perspective by demonstrating that individuals rely on heuristics and systematic cognitive biases when making decisions under uncertainty, while behavioural finance extended these insights to financial markets by showing that collective expectations, investor sentiment and social interactions may influence market outcomes. Although these mechanisms have been extensively examined in public financial markets, their application to commercial real estate remains comparatively limited. Existing studies have focused primarily on individual behavioural biases affecting valuation and investment decisions, whereas considerably less attention has been devoted to understanding how professional market participants develop shared investment expectations.

The distinctive characteristics of commercial real estate markets further reinforce the importance of this question. Unlike public financial markets, CRE relies on an information environment in which market knowledge is fragmented, proprietary and costly to obtain. Professional intermediaries—including advisory and brokerage firms, valuation professionals, market research organisations, industry associations and specialised media—play a central role in producing, interpreting and disseminating market information. Information is also exchanged through repeated business relationships, professional conferences and informal industry networks, providing access not only to transaction evidence but also to professional opinions and forward-looking assessments of market conditions.

Commercial real estate research has generated important insights into information asymmetry, market transparency, valuation and investment decision-making. Meanwhile, behavioural economics, behavioural finance, herd behaviour, information cascades and narrative economics have developed complementary explanations of expectation formation under uncertainty. However, these research streams have largely evolved independently and have had limited interaction within the commercial real estate literature. As a result, existing studies explain how market information is produced and disseminated but provide comparatively less insight into how professional market participants collectively interpret it and form shared investment expectations.

This paper addresses this gap through a theory-building systematic literature review integrating commercial real estate economics, behavioural finance, information diffusion, herd behaviour and narrative economics.

Research objective and contribution

This paper aims to develop a conceptual framework explaining how collective investment behaviour may emerge within commercial real estate markets through the dissemination and interpretation of information among professional market participants. To achieve this objective, it adopts a theory-building systematic literature review integrating commercial real estate economics, behavioural finance, herd behaviour, information diffusion and narrative economics. The review examines how information is produced, disseminated and collectively interpreted within the professional commercial real estate environment.

Rather than proposing a new behavioural theory, the paper synthesises established but fragmented theoretical perspectives into a coherent conceptual framework explaining how the professional commercial real estate information environment may contribute to the formation of shared investment expectations and, under particular market conditions, to the emergence of collective investment behaviour. The resulting framework provides the theoretical foundation for subsequent empirical research on the Polish commercial real estate market.

Methodology

This study adopts a theory-building systematic literature review as its research design. Unlike traditional narrative reviews, theory-building reviews seek not only to synthesise existing knowledge but also to integrate complementary research streams into a coherent conceptual framework. This approach was chosen as it is particularly apt for research questions spanning multiple disciplines where no single theoretical perspective sufficiently explains the phenomenon under investigation.

The review draws upon six complementary bodies of literature: commercial real estate economics, classical investment theory, behavioural economics and behavioural finance, herd behaviour and information cascades, information diffusion, and narrative economics. Although these research streams address related aspects of investment decision-making, expectation formation and information transmission, they have largely developed independently. Integrating them provides the basis for a more comprehensive understanding of how professional market participants acquire, interpret and disseminate information under conditions of uncertainty.

The principal outcome of the review is a conceptual framework describing potential relationships between information dissemination, expectation formation and collective investment behaviour in commercial real estate markets. The framework is intended to identify theoretical linkages rather than establish causal relationships and will guide the subsequent empirical stage of the doctoral research, including longitudinal computational analysis of professional market publications and other industry communication within the Polish commercial real estate market.

Preliminary Findings and Emerging Conceptual Framework

The literature indicates that commercial real estate markets are characterised by a structurally imperfect information environment. Unlike public securities markets, market information is generated through infrequent and heterogeneous transactions, appraisal processes, brokerage activities, market reports and proprietary research rather than continuous price discovery. Consequently, market participants rely on multiple sources of information produced and disseminated by professional intermediaries that differ in timeliness, accessibility and interpretation. Existing research demonstrates that appraisal-based information adjusts gradually to new market evidence, while transaction-based and listed-market indicators provide complementary but imperfect signals. Brokers, valuers, consultants and data providers therefore play a central role not only in disseminating information but also in interpreting and standardising market knowledge.

The reviewed literature suggests that professional investors are exposed to many of the same information sources, including benchmark transactions, valuation conventions, market indices and advisory reports. Existing research provides substantial insight into the production and dissemination of market information but comparatively less understanding of how professional market participants collectively interpret this information and translate it into shared investment expectations. The review therefore identifies an important gap between established research on information production and the behavioural processes through which expectations emerge under conditions of uncertainty characteristic of the CRE market.

Rather than assuming the existence of herd behaviour, the proposed framework investigates whether market-mediated information contributes to the formation of shared investment expectations and, under particular market conditions, to the emergence of collective investment behaviour, including herd behaviour. The reviewed literature suggests that these phenomena cannot be understood solely through individual behavioural biases or information asymmetry. Instead, an integrated perspective is required that considers the interaction between the professional production and dissemination of market information, its collective interpretation by market participants, and the formation of shared investment expectations.

The resulting conceptual framework integrates these analytical domains, as illustrated in Figure 1. The figure does not represent established causal relationships but rather organises the principal analytical levels identified through the literature review and provides the foundation for subsequent empirical investigation.

COMMERCIAL REAL ESTATE INFORMATION ENVIRONMENT

- Information production
- Information dissemination via intermediaries
- Information asymmetry
- Market transparency
- Valuation and intermediation

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COLLECTIVE INTERPRETATION OF INFORMATION

- Interpretation of market information
- Formation of shared investment expectations

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COMMERCIAL REAL INVESTMENT DECISION-MAKING

- Individual investment decisions
- Collective investment behaviour
- Herd behaviour

Figure 1. Analytical levels integrated in the proposed conceptual framework.

Reference: Author's own elaboration.

Conclusions and Future Research

This paper presents the foundations of a theory-building systematic literature review examining the emergence of collective investment behaviour in commercial real estate markets. The preliminary review suggests that although existing research provides substantial insights into information asymmetry, market transparency, behavioural decision-making and herd behaviour, these perspectives have rarely been integrated into a common conceptual framework. The proposed framework therefore broadens the analytical focus from individual behavioural biases to the wider processes through which professional market participants acquire, interpret and disseminate information, potentially contributing to the formation of shared investment expectations and, under certain market conditions, herd behaviour.

As a conceptual contribution, the framework remains a working proposition requiring empirical validation. The subsequent stage of the doctoral research will examine these mechanisms within the Polish commercial real estate market through longitudinal computational analysis of professional market publications and other industry communication, complemented by an assessment of observed investment market activity. By integrating previously fragmented research streams and providing a structured foundation for future empirical investigation, the study aims to contribute to the growing field of behavioural commercial real estate research.

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