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Nepal's Real Estate Landscape: Unveiling Behavioral Dynamics for Strategic Investments

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ABSTRACT

This study delves into the intricate dynamics of behavioral biases and their consequential effects on individual investment decisions within the real estate sector in Nepal. Through a comprehensive examination of existing literature, this research identifies prevalent behavioral biases among investors, including the illusion of control, cognitive dissonance, herd instinct, hindsight, and representativeness biases. Employing a descriptive research design, content analysis of scholarly articles elucidates the significant influence of these biases on investment decisions. The findings underscore a strong correlation between behavioral biases and investment choices, with notable biases such as loss aversion, self-attribution, regret aversion, and over-optimism prominently shaping investors' attitudes towards real estate investments. Moreover, the study highlights the pervasive impact of optimistic outlooks on future returns and the herd mentality, wherein investors are driven by peer actions, contributing to the burgeoning real estate market in Nepal. This research provides valuable insights into the underlying behavioral mechanisms driving investment decisions, offering implications for investors, policymakers, and practitioners in mitigating biases and fostering informed decision-making in the real estate domain.

Keywords: *Behavioral Biases, Cognitive Dissonance, Loss/Regret Aversion, Over Optimism*

INTRODUCTION

Amidst the global financial landscape, investors frequently base their decisions not merely on readily available data but also on factors such as emotions, ignorance, and biases. This trend has spurred an exploration into behavioral finance, a burgeoning field aimed at comprehensively understanding the drivers behind these decisions. Dervishaj (2018) underscores the significant impact of investors' cognitive and emotional processes on their investment behavior. According to Madaan & Singh (2019), behavioral finance has evolved into a crucial component of mainstream finance, amalgamating theories from behavioral psychology with traditional finance principles. Notably, two prevalent behavioral phenomena-investors' reactions to past gains and losses, and the prevalence of familiarity bias-have emerged, reshaping perceptions of investor behavior. In Nepal, a surge in real estate investments has been witnessed, driven by the pervasive belief in real estate's capital security and reliable income streams, curtailing investors' inclination towards riskier ventures.

Rawat (2023) have delved into the impact of investor behavior on financing real estate investments. However, the conventional rational models inadequately capture the complexities of Nepalese investors' decision-making processes, warranting an investigation into the influence of behavioral finance and investor bias on investment analysis and decision-making processes. Despite the burgeoning real estate investments in Nepal, research focusing on investor sentiments remains limited, with most studies directed towards the stock market. Hence, there is a pressing need to scrutinize investor bias in real estate investment in Nepal.

This study aims to explore the impact of investor bias on real estate investment decisions, specifically targeting behavioral biases in the Nepalese real estate sector. With a rising number of individuals favoring real estate investment, there is a concerning trend of inadequate evaluation of alternative investment avenues, leading to a pervasive reliance on real estate. The primary objective of this study is to investigate the cognitive and emotional biases influencing investor decisions in Nepal's real estate sector. The findings will provide valuable insights to stakeholders, financial analysts, and academicians, enriching their understanding of investor bias and facilitating more informed decision-making. Moreover, property investors will benefit from gaining a deeper understanding of the role played by behavioral factors in investment decisions, enabling them to navigate the real estate market with greater clarity and foresight. The study's methodology will adhere to a descriptive and detailed design model, culminating in conclusions and recommendations drawn from the findings, thus contributing to the advancement of knowledge in behavioral finance and real estate decision-making processes.

The study has several notable limitations. Firstly, it relies solely on secondary data sources, potentially limiting the depth and specificity of the analysis and introducing biases or inaccuracies. Secondly, accessing primary data from the Nepalese investment sector was challenging, hindering the potential for original research. Time constraints also impacted the collection of quantitative data, affecting the breadth and depth of the analysis. Additionally, the absence of quantitative data deprives the study of statistical analysis and numerical evidence, while the use of content analysis introduces potential bias. Future research should explore alternative methodologies and allocate adequate time and resources for data collection to enhance the credibility, validity, and reliability of findings.

LITERATURE REVIEW

The decision-making process of investors is often influenced by factors that do not align with rational or logical constructs. Traditional financial markets tend to assume that the value of investments reflects publicly available information and is therefore fairly assessed by rational investors (Kamoune & Ibenrissoul, 2022). However, some investors are driven more by sentimental beliefs and ideologies rather than rational assessments of risks. Zain ul Abdin et al. (2022) suggest that investors bias can lead to unjustifiable expectations of future returns, driven by speculative optimism or pessimism.

Liu et al. (2023) introduce the concept of investor sentiment, which refers to beliefs about future cash flows or discount rates unsupported by fundamental logic. This departure from rational decision-making is contrary to the traditional assumption that investors act rationally and make informed decisions based on available information. Real estate investors, like other investors, are expected to make rational decisions based on careful consideration of available information (Amin & Pirzada, 2014). However, Skjærholt (2015) notes that forecasting economic variables over extended periods is challenging, leading to uncertainty in real estate investment decisions. Prospect theory, which suggests that investors seek risk when facing possible losses and avoid it when expecting gians (Bhootra & Hur, 2011). The study suggest that real estate investment offers both consumption and investment opportunities, leading to biased views among investors. Over-optimism and overconfidence contribute to deviations from rationality, according to the authors.

Agarwal et al. (2016) illustrate the concept of the illusion of control, wherein investors falsely perceive that they can dictate future investment outcomes. Despite ample evidence suggesting otherwise, this misconception often fosters overconfidence among investors, ultimately resulting in suboptimal decision-making. Additionally, herd mentality often drives uninformed individuals to follow others' investment decisions, such as but no limited to real estate. Psychological biases influence investors' thoughts and feelings about

investments, impacting decision-making across industries. Real estate investors may not always recognize their biases, but awareness can lead to more rational decisions (Amin & Pirzada, 2014). Overall, understanding, and mitigating biases is crucial for investors, including those in real estate, to make informed and effective investment decisions.

Investors' Bias and Effects of Investor Bias on Real Estate Investment

The concept of investors' bias sheds light on fundamental investment decisions driven by irrational factors. Traditional financial theories typically assume that investors diligently gather information before committing funds to investments (Kamoune & Ibenrissoul, 2022). However, this approach does not always apply to real estate investments. Real estate investors often exhibit unwavering confidence in the profitability of their investments, deviating from the traditional approach of thorough information gathering (Brueggeman & Fisher, 2016). Rather than making informed decisions based on detailed analysis, real estate investors often rely on emotional perceptions of profitability without thoroughly evaluating the pros and cons of their investment choices. When faced with multiple investment opportunities, investors may prioritize real estate without conducting a thorough assessment of alternative options. The rational market hypothesis dictates that investment decisions should be based on careful evaluation and access to all relevant information. However, real estate investors frequently deviate from this approach, influenced by factors beyond traditional financial theory (Ling & Archer, 2018). Their long-standing attitude towards real estate investments. When making investment decisions, individuals often fall prey to cognitive biases that lead them to rely excessively on their own perceptions and past experiences while disregarding information perceived as uncertain. This narrow focus prevents them from seeing the bigger picture and can result in poor, uniformed decisions.

According to Ceschi et al. (2019), cognitive biases prompt people to make decisions based solely on mental shortcuts or heuristics. Additionally, the concept of limits to arbitrage suggests that rational arbitrageurs face significant risks when attempting to counteract irrational investments. They may encounter difficulties in taking effective positions against such investments due to financing pressures, which ultimately affects the value of investments. Grum & Kobal Grum (2015) supports the notion that property investors often make irrational decisions when entering the real estate market. A similar irrational attitude could explain the sharp rise in property prices in Kathmandu, where prices have doubled over the past decade (Times, 2022).

Drives Property Markets

Property markets worldwide are subject to various factors that influence their dynamics. These factors dictate the level of activity and the amount of

capital invested in real estate transactions. While certain indices may have more significant impacts in specific regions, it is undeniable that these indices collectively shape the extent of participation by prospective buyers and sellers in property markets. As outlined by Amin & Pirzada (2014), the following key drivers have been identified as crucial to property markets:

1. Market Forces: One of the most significant factors influencing fluctuations in property markets is the interplay between supply and demand forces. Changes in these indices directly impact the level of participation among prospective buyers and sellers in the market. In areas with high population density, properties tend to command high values, which continue to increase as the population grows. Conversely, locations experiencing a decline in population may see a decrease in property values. A decreasing population often indicates that the location is perceived as less promising, possibly due to factors such as natural disasters, infrastructural deficits, or declining employment opportunities.
2. Affordability and Availability of Money: Affordability in the property market pertains to a prospective buyer's ability to fulfill the requirements necessary to acquire a property. Several underlying factors determine affordability, including the property's price, interest rates, government regulations, and wages. Affordability encompasses not only the property's sale price but also all associated costs associated with property ownership in each location (Amin & Pirzada, 2014). In some instances, housing properties may be priced cheaply in certain locations. However, stringent government regulations may mandate property owners to pay substantial sums before obtaining certificates of ownership. Such regulatory burdens can discourage prospective investors from investing in these areas, prompting them to seek properties elsewhere. Availability of funds does not necessarily mean the presence of money but rather the potential to generate regular income in a particular location.
3. Boom in Resources: There are instances when specific regions undergo a surge in natural resource discoveries, particularly those found underground. Such occurrences become pivotal factors driving investors to compete for property acquisitions in these areas. This phenomenon is particularly evident in regions boasting significant deposits of natural resources deemed as international commodities, such as the surge in demand for property in areas abundant in crude oil during the 1970s. Countries and regions with substantial crude oil reserves experienced a heightened demand from investors seeking to acquire land for various purposes, including extraction, manufacturing, or leasing to expatriates for substantial profits. Similarly, coastal areas

with access to shores and beachfronts attract individuals eager to capitalize on the benefits associated with owning property near water bodies.

4. Infrastructure Availability: Infrastructure availability serves as a significant driver of the rush for property investment. Certain areas are endowed with ample and attractive infrastructure compared to others, making them more appealing to investors. Infrastructure is a crucial consideration for investors when assessing potential property acquisitions in specific locations. A notable example of this phenomenon occurred in Sydney, Australia, following the opening of the M2 and M7 freeways. These infrastructure developments significantly enhanced accessibility to the Northwest side of Sydney, making it more appealing to investors. Consequently, there was a noticeable increase in financial transactions involving landed properties in the region, including both property purchases and rentals. The improved infrastructure played a pivotal role in driving investor interest and activity in the area.
5. Ageing Population: An emerging trend influenced by AI is the changing landscape of property transactions, with the ageing population playing a significant role. As AI increasingly automates tasks across various industries, older workers may find themselves retiring from the traditional workforce (Paudel, 2024). However, rather than solely relying on conventional retirement plans, retirees are turning to property investment as a means of securing their financial future. This shift stems from retirees recognizing the stability and potential income generation offered by property ownership in an AI-driven economy. With AI disrupting job markets and income streams, property investments serve as a tangible asset that might provide consistent returns over time. For retirees, owning properties represents a potential reliable source of income, mitigating the impact of the cessation of regular salaries they were accustomed to during their working years. Thus, the adoption of AI indirectly influences property transactions by encouraging retirees to invest in real estate as a means of safeguarding their financial well-being in an evolving economic landscape.
6. Invest or Save: When investors find themselves with sufficient funds, they often face a critical decision: whether to invest their money or save it for the future, a phenomenon referred to as investor paralysis (Smith et al., 2016). According to Hassan et al. (2014), a concept known as the choice to prioritize saving over investing stems from a fear of potential declines in the value of investments. Investor psychology and cognitive abilities play crucial roles in making decisions involving substantial sums of money. Based on empirical evidence, it has been observed that

investors analyze investment portfolios by taking into account not just the potential returns they offer, but also prioritize the safety of their assets (Paetzold et al., 2022). Psychological factors such as sentiments, overreactions, and overconfidence often influence investment decisions, particularly favoring property investment over other forms of investment. Traditional finance analysts assert that investors frequently base their decisions on sentiments, while behavioral finance suggests that these decisions may lack consideration of quantitative indicators (Singh et al., 2023).

Giri & Adhikari (2023) assert that behavioral finance recognizes the significance of psychological elements such as fear, hope, optimism, and pessimism in shaping rational decision-making processes. Financial crises have also contributed to the dilemma of whether to invest or save, prompting investors to seek better preparation for future uncertainties. While financial crises are unpredictable, behavioral finance aims to provide investors with a comprehensive understanding of market trends to help them mitigate potential losses (Kumar, 2017). This awareness empowers investors to protect themselves against adverse market conditions and make more informed decisions about their investments.

Concept of Mental Accounting and Cognitive Dissonance

Thaler (1985) introduction of mental accounting in 1985 underscores individuals' tendency to compartmentalize their investments and financial decisions (Ginting et al., 2023). According to Cheng et al. (2023), people attribute varying degrees of importance or utility to different assets, thereby impacting their spending habits and decision-making approaches. Individuals may allocate separate budgets for different expenses, and once a budget is exhausted, they limit further spending in that category. This division of funds extends to investments, with some individuals designating certain assets as "safe" investments protected from downside risk, while others are considered riskier with the potential for higher returns. Muehlbacher & Kirchler (2019) note that a practical application of mental accounting lies in behavioral life-cycle assumptions, where individuals categorize investments according to their perceived present wealth and future returns. However, they caution that this approach can have implications since the accounts may not align with the marginal propensity to consume. Investors often exhibit a tendency to hold onto losses in the hope of eventual recovery, and they may favor investments with high dividends to maintain a steady income without dipping into their capital. This behavior contributes to the segmentation of investment portfolios, with real estate often viewed as a secure asset offering protection against downside risk and promising long-term wealth accumulation. For instance, individuals may be more willing to spend when using credit cards compared to cash, or they may purchase more when paying with debit or with

credit cards than with cash. This demonstrates how investors perceive assets separately and fail to recognize interactions between different classes of assets.

In the context of real estate investment, individuals may hesitate to allocate funds from one investment scheme or project to another, even if the latter offers potentially higher returns. This reluctance reflects the principles of mental accounting, where investors categorize income from real estate differently from income generated by other investment classes, influencing their decision-making process (Cheng et al., 2023; Muehlbacher & Kirchler, 2019).

Cognitive dissonance refers to the psychological discomfort individuals experience when confronted with evidence that contradicts their existing beliefs or attitudes. It arises when a person's actions or decisions are inconsistent with their beliefs or values, leading to feelings of regret or unease (de Vries et al., 2015). Cognitive dissonance essentially pertains to the clash occurring between an individual's thoughts, emotions, and behaviors. In response to cognitive dissonance, people commonly strive to alleviate this internal conflict. They might opt to evade unfamiliar information that contradicts their established beliefs or generate justifications to defend their choices and uphold their desired viewpoints (Cancino-Montecinos et al., 2020). For example, investors may justify their investment decisions by emphasizing the past exceptional performance of certain mutual funds, while downplaying or ignoring evidence of these securities'current and potential future weak performance. This tendency to avoid confronting the reality of a bad investment decision and to rationalize losses is a common manifestation of cognitive dissonance. Rather than acknowledging their mistake and accepting the losses, investors may cling to their initial beliefs and perceptions, attempting to minimize the discomfort associated with cognitive dissonance.

Real Estate Investment Decisions

Real estate investment is primarily driven by the expectation of future gains, requiring individuals to forgo current consumption while recognizing the inherent uncertainties and risks involved (Manganelli, 2015). The study investigated the investment behaviors of different individuals, considering variables such as earnings rate, liquidity, and stability to discern their approaches to real estate investments. Bolton et al. (2019) further reinforce this concept by underscoring the importance of recurring income from investments and safeguarding against inflation as pivotal motivators for real estate ventures. Property investors typically anticipate generating a favorable net income from rental proceeds post-expenses deduction. Additionally, they often envision substantial profits from property sales after a designated holding period. Nonetheless, it is imperative to acknowledge that while real estate investments are often perceived as lucrative endeavors with the potential for significant returns, this may not always

materialize. Hence, investment decisions should be grounded in meticulous assessment of accessible information, while weighing the most viable alternatives.

Biases Based on Perspective: Regret Aversion/Loss Aversion

These biases are based on the Theory of Perspective, a mental condition that affects anindividual's decision making capacities where regret is best described as the feeling of being responsible for the disappointing result of a course of action (Matarazzo et al., 2021). Wangzhou et al (2021) defines regret aversion bias as an emotional state wherein individuals try to avoid making decisions that they believe are going to turn out poorly. The disposition to avoid the pain of regretting a bad decision often limits their decision-making processes. In investment circles, regret aversion bias often results in investors feeling reluctant to sell because they believe that the current unfavorable performance of an investment may change for the better soon, and if they sell now, they may regret such a decision when the investment ultimately begins to perform better. This state of mind sometimes makes investors hold onto poorly performing investment such as stocks in hope of an improvement in their performance. There are situations where the results of past decisions affect the current decisions of individuals. When past outcomes were not favorable, the regret of having undertaken such a course of action may limit objectiveness when faced with similar scenarios, thereby altering objective decision-making. Regret has the power to entrap people with their past experiences by preventing them from evaluating new opportunities.

Nyakundi et al. (2017) explained that regret is an emotion which is manifested because of comparing a given outcome with a state of a forgone choice. The expectation of not wanting to feel regret by falling for the same incident again often makes them not evaluate the new scenario very well to tap into the opportunity. Sometimes, real estate investors might have invested in property in areas where they feel they will enjoy better returns, but things did not go as planned; hence they start to regret their actions. When similar opportunities show face again, the investor might reflect on the experience which will serve as a deterring factor to tapping from a glaring opportunity. The investor's disposition of not wanting to embark on another regretful course of action may override any objective analysis of the similar situation at hand, hence not taking a profitable decision. When investors are held by this bias, they take less risk to reduce the possibility of another bad result. Sukamulja et al. (2019) draw parallels between loss aversion and regret aversion, highlighting their conceptual similarities. Loss aversion, akin to regret aversion, arises from the innate inclination to avoid regretful outcomes. The study connects loss aversion to prospect theory, framing it as a decision-making process influenced by uncertainty, as evidenced by numerous psychological studies. Moreover, the study posits that individuals exhibit loss aversion by favoring risk avoidance over potential gains. These bias leads investor to overestimate short-term losses while underestimating long-term

profits. Consequently, experiencing losses often prompts individuals to discontinue specific investments. This aversion to loss fosters a myopic perspective, where investors become disproportionately distressed by negative impacts compared to positive outcomes of the same magnitude. Consequently, they prioritize short-term gains over long-term profitability, focusing on investment fluctuations rather than long-term stability.

Theoretical Framework: Prospect Theory vs Regret Theory

The Prospect Theory, also known as the Expected Utility Theory in economics, is a fundamental theory that sheds light on investors' biases in property investment. Developed in 1979 by Kahneman and Tversky, this theory has become a cornerstone in analyzing decision-making under risk. It provides a descriptive model of economic behavior, allowing for an understanding of how individuals make choices when faced with uncertain outcomes. Before the emergence of the prospect theory, there was a prevailing belief that irrational behavior could not be effectively modeled. Economists primarily focused on rational aspects of behavior, resulting in imperfect predictions.

Tekin (2016) raised concerns about the conventional expected utility model (EUM), suggesting it fell short in capturing decision-making amidst risk and uncertainty. Consequently, they introduced the Prospect Theory as a viable alternative. This theory delves into how individuals evaluate risk in uncertain situations, emphasizing a preference for avoiding losses rather than purely shunning risks. It underscores that investors often lean towards outcomes perceived as certain over those merely probable, a principle known as the certainty effect. The study further discussed that the central to the prospect theory is the concept of loss aversion, which influences investors' behavior. Loss aversion underlies both the prospect theory and the disposition effect, where investors tend to sell assets that have increased in value quickly while holding onto those that have decreased in value in anticipation of future gains (Hassan et al., 2014). This behavior contradicts the expectations of an efficient market and is attributed to risk attitudes inherent in the prospect theory, where gains lead to risk aversion and losses prompt risk-seeking behavior. Investors might be reluctant to accept losses on their investments and may take higher risks to offset short-term losses. The price of a security is one of the important factor that often might serve as a reference point for decision-making, with investors' tendencies to follow the disposition effect depending on the security's price value. Overall, the Prospect Theory offers insights into how individuals make decisions in uncertain situations, highlighting the importance of loss aversion and reference points in shaping investors' behavior in property markets (Rostami & Dehaghani, 2015).

Likewise, Tekin (2016) asserts that this theory functions as a framework for decision-making amidst uncertainty, prioritizing the minimization of potential losses alongside the maximization of potential gains. Moreover, this theory

proposes that decision-makers not only consider the outcomes they obtain but also ponder over the outcomes they could have attained through alternative choices. The notion of regret emerges from juxtaposing the actual outcome with the potential outcome of a passed-up option. For instance, in a scenario where a decision between two brands arises, one familiar and the other unfamiliar, the decision-maker might anticipate regret if the unfamiliar brand underperforms compared to the familiar one. Such foresight of regret can sway the decision-maker towards selecting the familiar brand over the unfamiliar one.

In accordance with the regret theory, investors often consider the possibility of regretting their investment decisions (Wangzhou et al., 2021). The study also further emphasized that human beings naturally experience discomfort when they realize they have made an error in judgment, regardless of the magnitude of the error. This emotional response to perceived mistakes forms the basis of the Regret Theory. Investors may be reluctant to sell stocks that have decreased in value below their purchase price due to the fear of experiencing regret. The potential for loss triggers feelings of regret, leading investors to hold onto underperforming stocks rather than selling them.

RESEARCH METHODOLOGY

The study utilized a descriptive research design model to investigate the influence of investor bias on real estate property investment in Nepal. Descriptive research aims to provide an accurate depiction of the characteristics of individuals, situations, or groups within a specific context, offering an in-depth profile of persons, events, or situations (Matua & Van Der Wal, 2015). In this instance, the descriptive approach was considered appropriate for understanding investor bias in the real estate sector, with a focus on describing phenomena and their attributes rather than testing predefined relationships between variables (Febriastuti, 2024). To achieve this objective, the research employed content analysis to scrutinize various studies and investigations conducted by scholars concerning the occurrence of investor bias in Nepalese real estate. This qualitative data collection method facilitated a comprehensive review of literature on the subject.

The research predominantly involved reviewing existing literature and deriving insights from it through content analysis. The collected data were qualitative in nature, allowing for an exploration of the interactions between different variables (Paudel, 2023), where content analysis was conducted on a range of textual sources from scholarly articles and investigations, as texts acquire significance in the context of their use. Consequently, they serve as valuable sources of data for qualitatively assessing the subject matter, focusing on describing how variables interact with each other (Elo et al., 2014).

RESULT AND DISCUSSION

In major cities globally, research has extensively investigated the factors influencing real estate property prices. Salzman & Zwinkels (2017) stressed the importance of location and the bargaining power of estate agents in determining real estate prices, noting that unlike commodity markets, real estate prices are impacted by unique factors. Similarly, Giri & Adhikari (2023) concentrated on Nepal, identifying the level of money in circulation and access to information as significant predictors of real estate prices. The study further supported these findings, indicating systematic correlations in real estate transactions and the influence of investor sentiment on price formation.

Dhungana (2023) assessed the Nepalese stock market performance and the impact of reforms. The study concluded that key factors such as a conducive investment environment, political stability, consistent governance, and an effective regulatory framework are essential for boosting confidence in the market. It highlighted the crucial role of regulatory institutions in driving market reform through the development of sound policies and implementation of appropriate mechanisms to ensure efficiency. Furthermore, the study emphasized the need for the capital market to be sustainable and reliable, achieved through institutional arrangements supporting continuous research, investor education, public awareness campaigns, and training programs.

In a separate study, Dangol & Manandhar (2020) explored the influence of heuristics on investment decisions among Nepalese investors. Specifically, they examined four heuristics representativeness, availability, anchoring and adjustment, and overconfidence and found that these factors significantly affect decision-making variables. However, the study did not explore the impact of other behavioral factors on investment decisions.The interest in real estate investment knowledge in Nepal and Southeast Asia has experienced a notable surge, as demonstrated by the analysis of Google Trend data conducted by Das et al. (2019). Their study uncovered a substantial rise in internet searches concerning real estate investment in Nepal, suggesting a preference for real estate investment over alternative options. Notably, between 2015 and 2018, searches for real estate investment content surpassed those for stock investment, underscoring the increasing enthusiasm for real estate among Nepalese citizens.

Numerous pieces of evidence and various insights highlight the errors made by Nepali investors when assessing different investment opportunities for prioritization. A logical approach would involve conducting thorough investigations and gathering adequate information on each investment portfolio, followed by a comparative cost-benefit analysis to determine the most profitable and ideal option. However, many investors in Nepal, particularly those with a strong attachment to real estate, often stray from rationality by failing to acquire sufficient information to substantiate the potential profitability of a specific real

estate investment compared to other investment schemes. Batnick (2018) noted that these mistakes are often driven by investors' emotions, which are frequently involuntary or unintentional. It appears that real estate investors are primarily motivated by their emotional connection to real estate, with other rational considerations taking a backseat. While there may be underlying reasons for such emotional attachments, the ultimate result is irrational decision-making. Economic theories suggest that decisions are made to maximize the expected value of utility, but making decisions based on emotions contradicts this principle (Altman, 2015). Consequently, if the goal of a real estate investor is to maximize profit and returns, prioritizing real estate over other investment portfolios becomes illogical and may lead to missed opportunities for surplus returns in alternative investment options.

Reviewing various scholarly works in modern behavioral finance, the concept of investor overconfidence emerged as a notable aspect, which was analyzed by Bhootra & Hur (2011). Their study found it illogical to consider overconfidence as a determinant of investment profitability. According to their findings, overconfidence is a psychological concept that should not be used as an excuse for investment decisions. Additionally, Hassan et al. (2014) conducted research on the influence of age and gender on behavioral biases in real estate investment across Southeast Asian countries. Their study highlighted gender differences in confidence levels and loss aversion among investors. Similarly, Rostami & Dehaghani (2015) investigated the effects of overconfidence, loss aversion, and ambiguity aversion on real estate investment. They suggested that these biases sometimes have positive impacts depending on investment outcomes.

Salzman & Zwinkels (2017) conducted an evaluation of various investment biases in real estate and observed that real estate investors frequently depart from logic and reason due to mental mistakes, emotional thoughts, and personality traits. They concluded that by mitigating behavioral biases, real estate investors can make impartial decisions grounded in available data and logical processes, thus minimizing the influence of biases on investment decisions. Particularly, the overconfidence bias was highlighted as potentially leading to adverse outcomes, as investors may become excessively confident in the success of real estate investments, disregarding the importance of diversification and disciplined investment strategies. Agarwal et al. (2016) highlighted major behavioral biases affecting financial decision-making processes, emphasizing that real estate biases cannot be viewed in isolation and are often influenced by external factors such as herding behavior. Similarly, Qadri & Shabbir (2014) found that many real estate investment decisions are made with emotional and cognitive biases, deviating from traditional finance theories based on rationalization. Finally, Burton & Shah (2015) identified anchoring bias as a prominent factor limiting logical decision-making processes among real estate investors, as it leads them to rely on past

experiences and maintain the status quo, often to the detriment of future investment opportunities.

CONCLUSION AND SUGGESTION

Conclusion

The investment decisions of individuals in Nepal are heavily influenced by various behavioral biases, as indicated by the conclusions drawn from the journal articles analyzed. Real estate investors tend to make decisions that are not based on rational analysis but are instead driven by behavioral factors. One prevalent behavioral bias observed in the analysis is representativeness bias, wherein investors' past experiences significantly influence their current investment decisions.

Additionally, there is a notable prevalence of the illusion of control bias, with many investors in Nepal believing they possess all the necessary information about real estate investments and are overly confident in the expected returns. Cognitive dissonance bias is also evident among individual investors, as they tend to hold onto investments in the hope of better future prices, thereby avoiding regret or losses. Herd instinct bias is another common behavioral factor, with investors often following the crowd into real estate investments without conducting thorough analysis or due diligence.

Furthermore, hindsight bias significantly influences investors' decisions, as past profitable returns from real estate investments lead them to believe in the prospects of such investments. However, they may overlook other important criteria for evaluating investment opportunities. Other biases, though significant, are not as prevalent as those discussed above. These include self-attribution bias, over-optimism bias, loss aversion bias, and regret aversion bias. Overall, these behavioral biases play a crucial role in shaping the investment decisions of individuals in Nepal, particularly in the real estate sector.

Suggestion

Suggestions are crucial to mitigate the impact of behavioral biases on investment decision-making among Nepali investors. Firstly, there should be a concerted effort to provide comprehensive education to individual investors. This education should focus on raising awareness about behavioral biases and empowering investors to identify and counteract them effectively. Training programs tailored specifically for Nepali investors can significantly reduce the occurrence of unfavorable investment outcomes resulting from behavioral biases.

Secondly, efforts should be made to enhance the financial management knowledge of investors. Providing access to financial literacy programs will equip investors with the necessary skills to manage their funds effectively. A study should be conducted to evaluate the design of financial capability programs aimed at improving investors' financial management techniques.

Furthermore, individual investors should seek informed advice from reputable stockbrokers and fund managers regarding alternative investment opportunities. These professionals possess detailed knowledge of the financial market and can guide investors towards profitable investments. Additionally, investors should explore options such as security funds, which may offer shorter-term but lucrative returns on capital. It is imperative to regulate brokers and fund managers to prevent them from exploiting investors' naivety.

Government intervention is necessary to establish stringent measures that address exploitation in the investment sector. This includes implementing regulations to curb misadvising practices and imposing limits on exorbitant fees charged by brokers and fund managers. By implementing these recommendations, Nepali investors can better safeguard themselves against the detrimental effects of behavioral biases and make more informed and rational investment decisions.

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