

Appendix

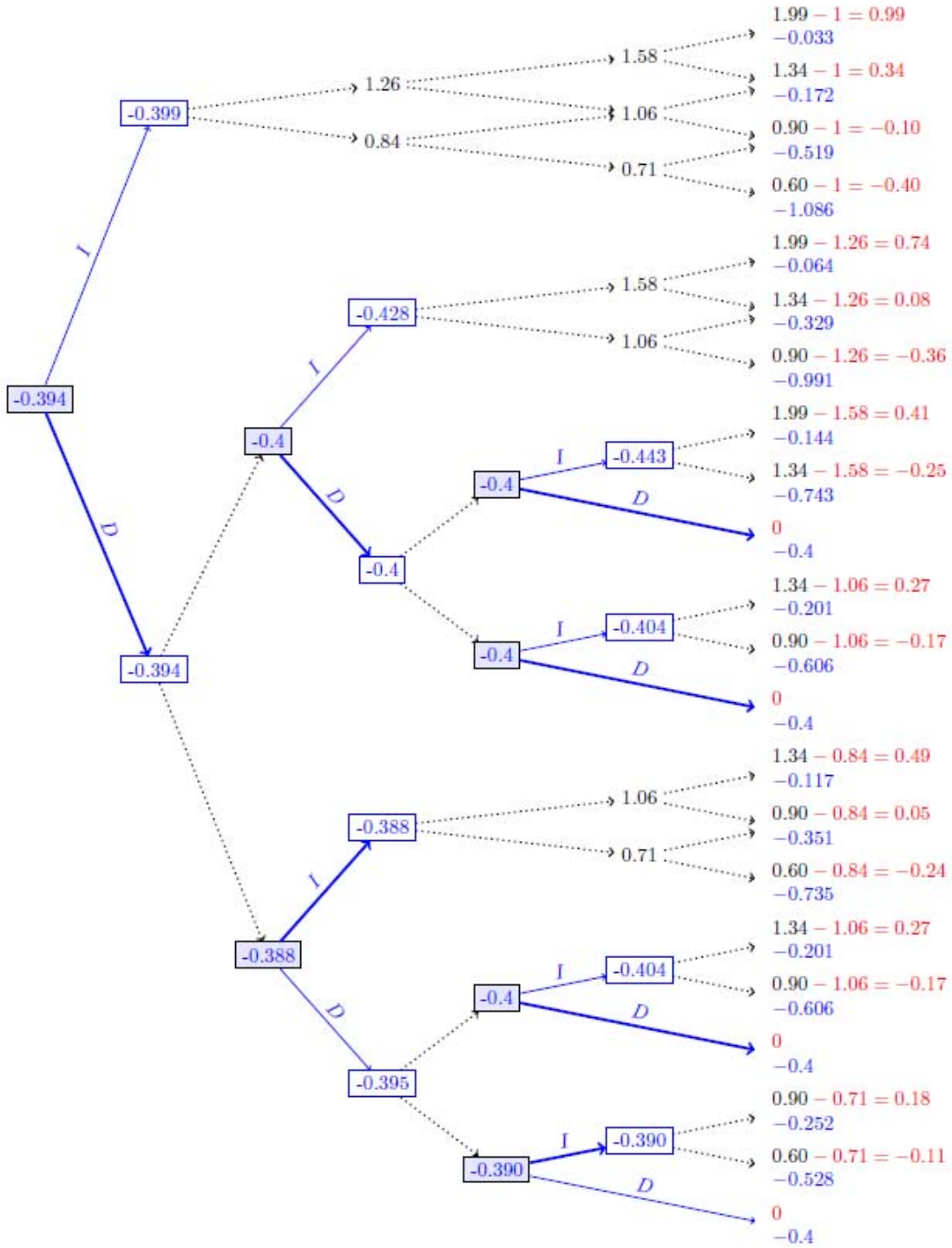


Figure 1: Illustration of the backward induction for the invest option, including the optimal decision at each node with I = 'invest' and D = 'defer', discounted market prices in black, expected utilities for backward induction in blue, costs and P&L in red. Decision opportunities every year for three years. $p_0 = 1$, $r = 5\%$, $\mu = 10\%$, $\sigma = 20\%$. Exponential utility with $\lambda = 0.4$.

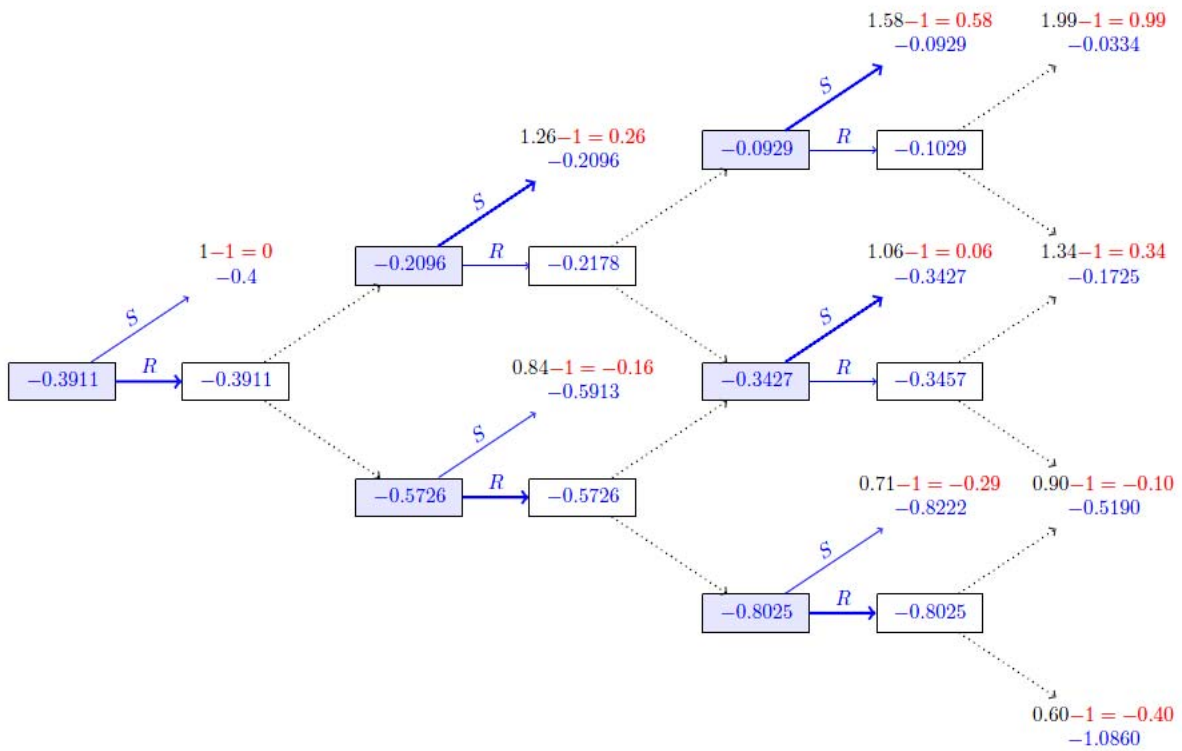


Figure 2: Illustration of the divest real option, including optimal decision at each node with S = 'sell' and R = 'remain', discounted market prices in black and expected utilities for backward induction in blue. Decision opportunities every year for three years. $r = 5\%$, $\mu = 10\%$, $\sigma = 20\%$. Exponential utility with $\lambda = 0.4$.

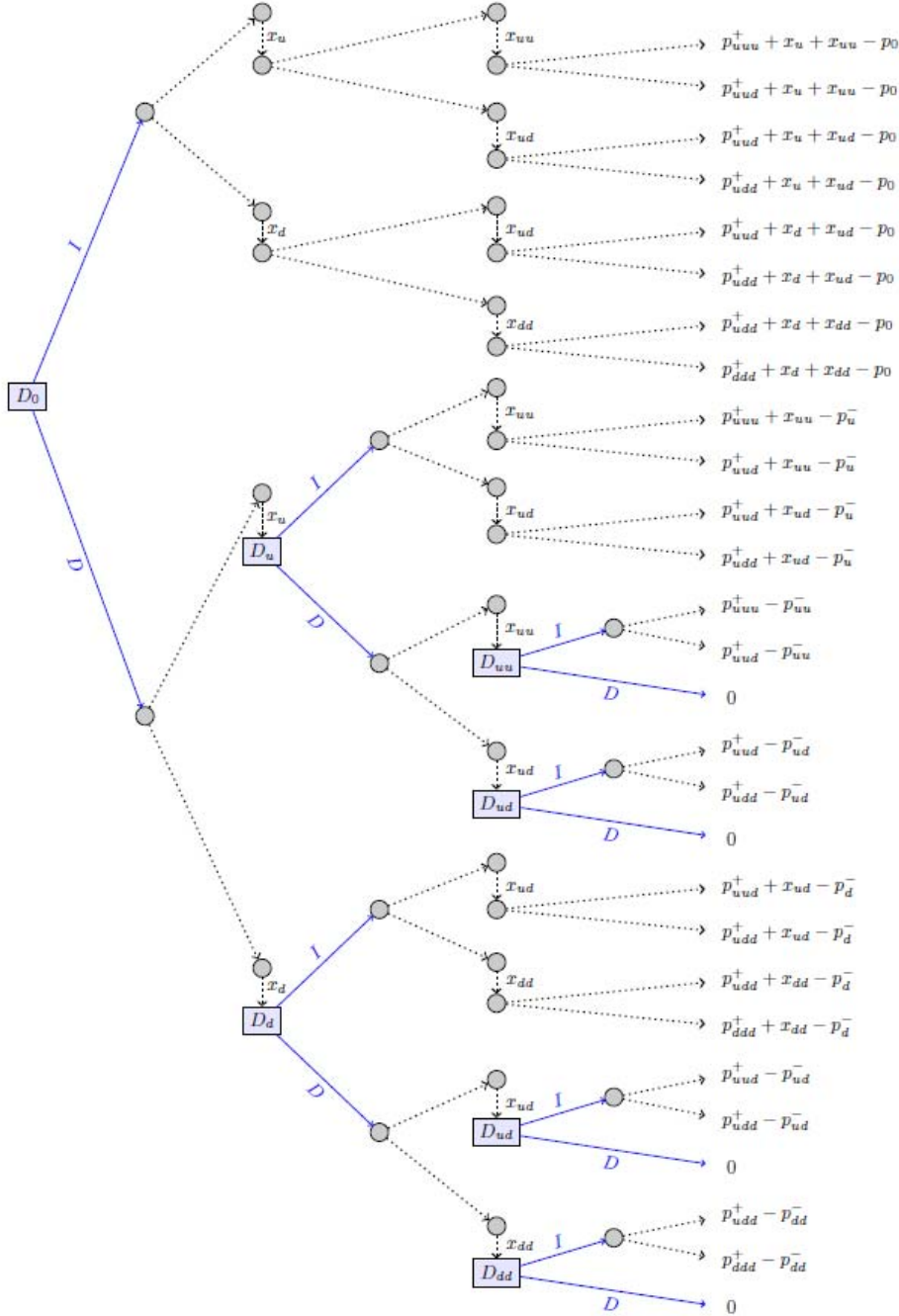


Figure 3: Decision tree depicting the option to invest in a property that pays rents, $x_{S(t)}$. $T' = 3, T = 2, k = 1$. Terminal nodes labelled with P&L ($w - w_0$), following decision to invest (I) and 0 otherwise, with $CF = x$.

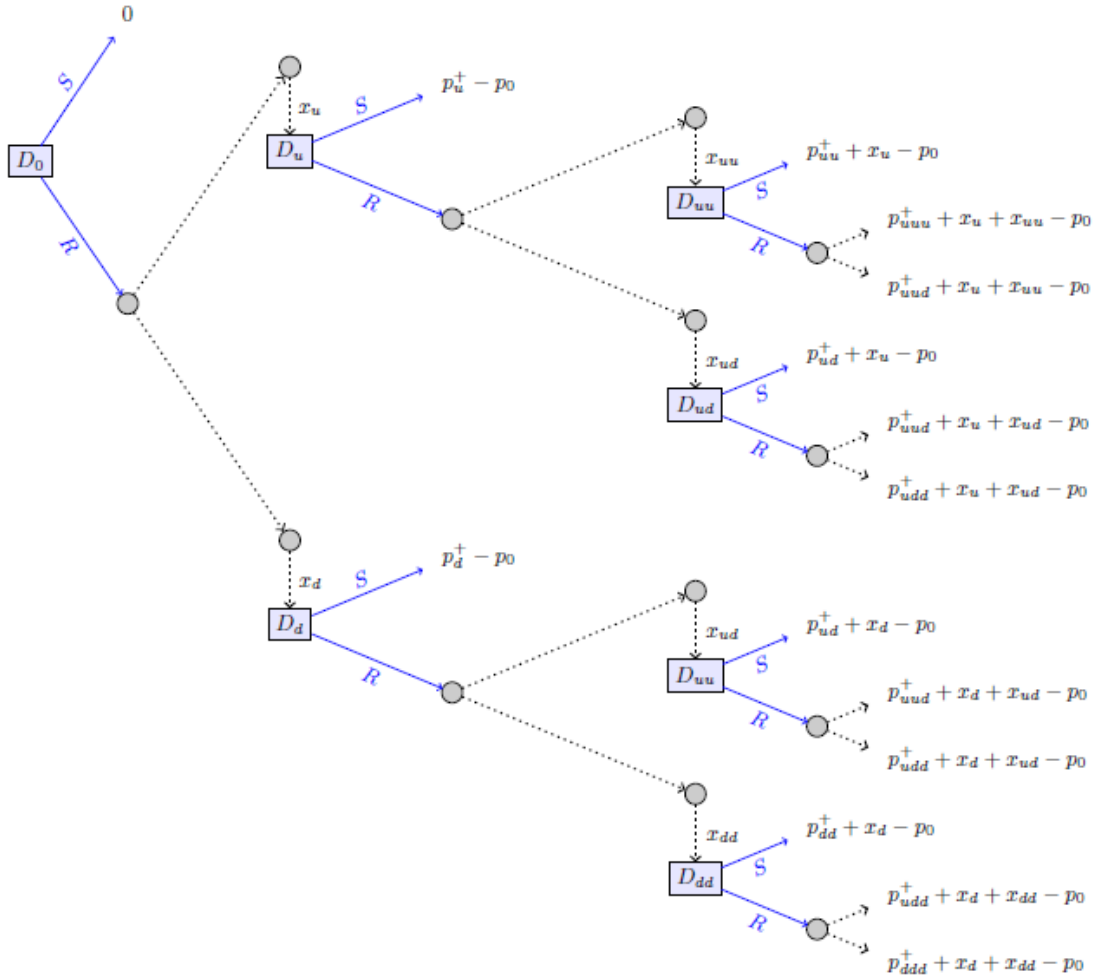


Figure 4: Decision tree depicting the option to sell a property that pays rents, $x_{s(t)}$. $T' = 3, T = 2, k = 1$. Terminal nodes labelled with P&L ($w - w_0$) with CF = x if the owner remains invested (R), or if the owner sells the property (S) by the difference between the selling price and initial price.

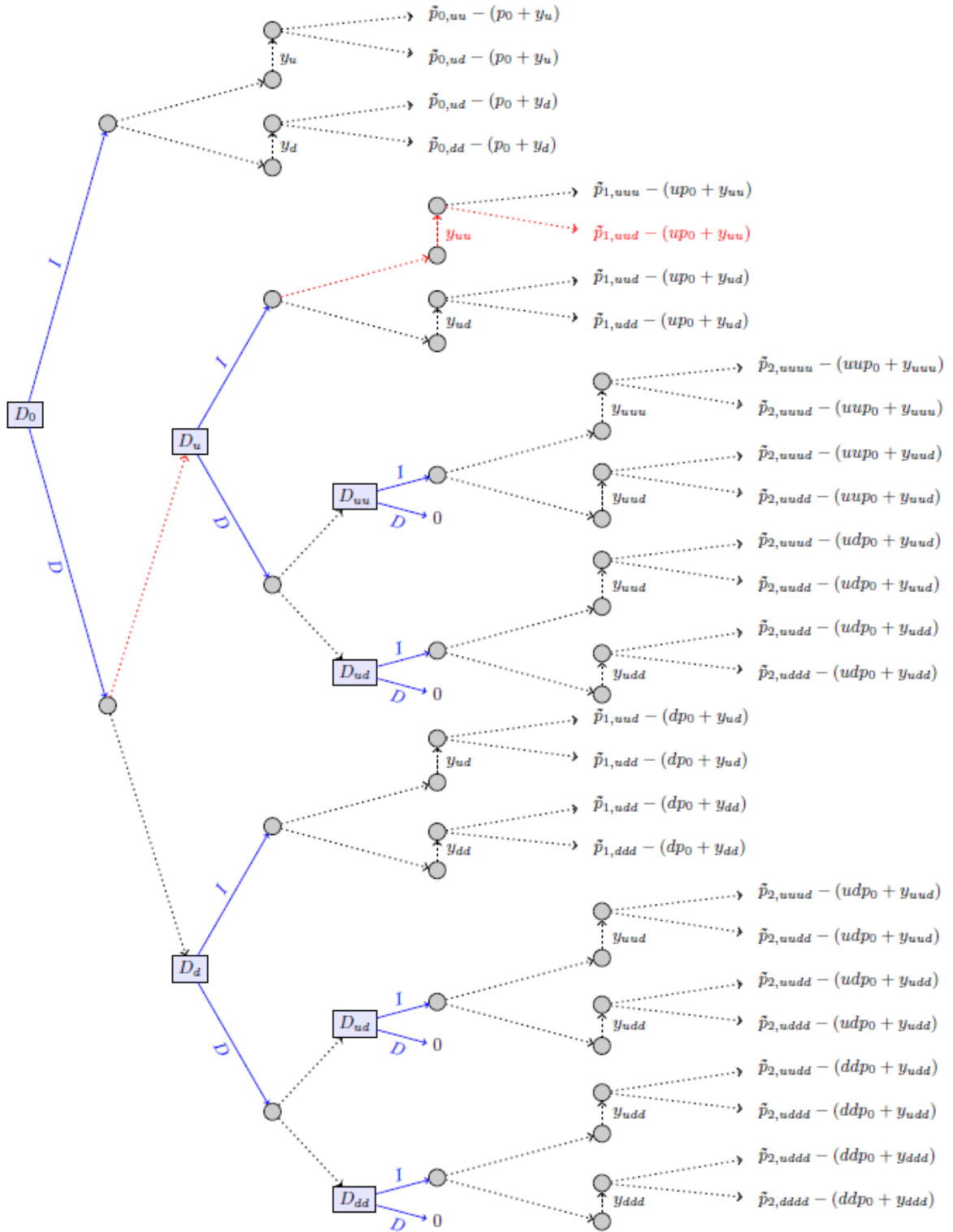


Figure 5: Decision tree depicting the option to invest in land for development. If the land is acquired (I) the development takes 2 periods and development costs occur only after the first period. Terminal nodes are associated with the P&L, $w - w_0$ resulting from the decision.