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Real Estate Returns: A Comparison with Other Investments

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Abstract

Real estate returns, measured unleveraged, have been between those of stocks and bonds over 1960–1982. Due to appraisal smoothing and imperfect marketability, one must be careful about directly comparing measured real estate returns with those on other assets. It is likely, however, that low correlations with stocks and bonds make real estate a diversification opportunity for traditional portfolio managers. In addition, the issue of how various assets are priced is addressed. While stocks are priced primarily on market or beta risk, and bonds are priced primarily on interest rate and default risk, the real estate pricing mechanism includes residual risk and non-risk factors such as taxes, marketability costs and information costs.

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