

On the Time-Series Properties of Real Estate Investment Trust Betas

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Abstract

The relation between real estate investment trust (REIT) returns and stock market returns is of significant importance to investors, practitioners and academics. The temporal properties of this relationship have a critical impact on the usefulness of REIT risk estimates and portfolio allocations to this asset class. Recent studies have suggested a decline in the market betas of equity real estate investment trusts (EREITs). This study applies a rigorous statistical test of the hypothesis that the market betas of EREITs have remained unchanged during the 1972 through 2002 time period. There is weak evidence of a downward trend in EREIT betas using a single-factor model; however, the hypothesis is not rejected when using a three-factor model.

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