

Journal of Property Research >

Volume 22, 2005 - Issue 4: Special Issue for the European Real Estate Society (ERES) Conference 2005

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REIT Returns and Pricing: The Small Cap Value Stock Factor

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Pages 267-286 | Received 08 Aug 2005, Accepted 05 Jan 2006, Published online: 21 Aug 2006

🗨️ Cite this article 🔗 <https://doi.org/10.1080/09599910600558454>

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Abstract

This study employs a variance decomposition approach to explore the investment

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based on market capitalization these firms comprise more than 70% of the NAREIT index.

5. We also experiment with a total return series that incorporates a monthly income return component, but given the focus on monthly REIT return volatility, the inclusion of a relatively stable income return does not affect the results reported later in the article.

6. For additional analysis of the Green Street NAV index, including a brief comparison with the raw NCREIF value index, see Green Street Advisors ([2002](#)). Both the average REIT sector premium to NAV and the special report are available online at www.greenstreetadvisors.com/sampleresearch.html.

7. While Lee and Stevenson ([2005](#)) do not explicitly consider the idiosyncratic component, the large role it plays in REIT pricing documented here is consistent with their result that large and small cap stock returns do not 'span' the space of REIT returns.

8. This data is taken from Ken French's website at <http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/>. Details of the construction of the SMB and HML factors are provided there and in Fama and French ([1993](#)).

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