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Diversification when It Hurts? The Joint Distributions of Real Estate and Equity Markets1

John Knight, Colin Lizieri & Stephen Satchell

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Abstract

This article examines claims about the diversification benefits of real estate. In particular, does real estate investment in a mixed asset portfolio provide protection when other asset classes are performing badly? Conventional portfolio strategy models utilising covariance statistics may result in a misallocation of capital if correlation
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1. Paper originally presented to the European Real Estate Society Annual Conference, Dublin, June 2005.

Keywords: Copula portfolio diversification tail dependence real estate

Notes

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2. Or, for professional investors, by investing in securitized or unitized property vehicles in the private market.

3. However, Lu and Mei (1999) observe that international real estate stocks show a higher correlation with US stocks when US markets are performing badly, implying diversification gains are least when investors need them most.

4. Other de-smoothing models produced very similar results.

5. GPR is preferred to EPRA for the time-series and the availability of pure closed-end data series.