

Risk and Return of Japanese Real Estate: Evidence from the Pacific Basin and the U.S. Capital Markets

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Abstract

We examine the risk and return characteristics of publicly traded real estate companies from 4 Pacific-Basin countries and the U.S. over the period 1990 to 2004. Our data are monthly country-level commercial real estate indexes constructed by the European Public Real Estate Association (EPRA) and data from Datastream. We find substantial variation in mean real estate returns and standard deviations across countries, particularly between Japan and Australia. Using various global and country-level factor models, we find that there is evidence of a strong global market risk component, measured relative to the Morgan Stanley Capital International world index. Even after controlling for the effects of global market risk, an orthogonalized country-specific market risk factor is highly significant. We find that a country-specific value risk factor has some explanatory power in addition to the country-specific market factor. These findings imply that the international diversification opportunities with real estate companies are more complex than previously thought.