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Master's thesis
Licentiate's thesis
Doctor's thesis

Subject	Economics	Date	9.5.2008
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		Number of pages	82
Title	Property in a mixed asset portfolio		
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Abstract

The role of property investments has changed significantly during the past decades. One of the major changes has been the transformation of properties from individual investment sector into a part of an investment portfolio. The purpose of this thesis is to study the characteristics of property investments and their behaviour in a mixed asset portfolio. The study includes a literature review and an empirical study that focused on the characteristics of Finnish commercial property investments in a mixed asset portfolio.

The existing research suggests that property in an asset class that offers moderate returns and low return volatility. The correlation of property returns with the returns of other asset classes is typically observed to be low, suggesting that property offers diversification benefits in mixed asset portfolios. The volatility of returns and correlation structures vary, however, from market to market and between different time periods, as well as depending on the data interval used for measurement.

The inflation hedging characteristics of property investments are of special interest to investors, who invest to cover their future liabilities. The general knowledge suggests that property is a better hedge against inflation than investments in stocks or bonds, when looking in more detail, however, the results on the inflation hedging studies have varying results, and the inflation hedging ability seems to be weaker in smaller and developing markets than on large and mature markets.

The empirical study on Finnish commercial real estate markets was based on yearly data and extended over the time period of 1999-2006. The results confirm the findings of previous research, suggesting that the returns on property investments are between those of stocks and bonds, and that the risk-return relationship for property returns is attractive. Correlation of property returns with returns of other asset classes was low to moderate, and Finnish property investments were found to have a major role in the optimal Finnish portfolios. The results on inflation hedging ability were inconsistent across different methods. Due to the fact that the analysis was based on annual returns, results only represent short-term diversification gains. For long-term analysis, analysis should be carried out using longer data frequencies corresponding actual investment horizons.

Key words	Property investment, mixed asset portfolio
Further information	