

Does Real Estate Fund in Thailand Provide Diversification Benefits for Stock Investment?

Nopphon Tangjitprom
Preechaya Chavalittumrong
Veeranuch Leelalai

ABSTRACT

The real estate investment has been an alternative investment as a diversifier for traditional investment like the stock market. Previous studies have shown the diversification benefits of real estate investment for stock portfolios. This paper aims to examine whether and to what extent real estate funds can provide diversification benefits to investors. The information of stock returns and real estate funds in Thailand was gathered for the period during 2007 and 2015. The results show that there is no diversification benefit in terms of hedge or safe haven from real estate funds in Thailand. However, the average beta of real estate funds is relatively low and the risk-return performance of real estate funds remains attractive to be included in the portfolio.

Keywords: Diversification, Real Estate Investment, Alternative Investment, Safe Haven, Property Fund

INTRODUCTION

For years, owning real estate properties is considered one of the most conservative investments. Real estate investors normally expect a high return from both the income stream and value appreciation of the property itself. Some consider real estate a hedge against other investments, such as stocks, bonds, and commodities. A large number of investors thus include real estate in their portfolio to diversify their assets.

However, real estate owners encounter various difficulties and miscellaneous costs, for example, regular maintenance costs, taxes, and other unexpected expenses due to unpredictable circumstances. Although it is commonly believed that property value would always increase, the fact is that a bad investment decision could lead to a significant loss in property value, especially during the period of economic recession. Real estate investors are therefore exposed to high risks and are also confronted with liquidity issues, as such an investment takes a much longer time to sell or rent out. To these investors, the choices of property types are limited because unusual high capital requirements and special skills are needed so as to develop these properties, for example, retail shops, department stores, and office buildings. As a result, small and medium real estate investors have recently shifted their interest from real estate properties towards property funds, which provide asset diversification and thereby reduced risks.

This paper aims to examine whether real estate funds can provide diversification benefits against stocks. The role of real estate funds as a diversifier has been examined

AU Journal of Management, Vol. 14, No. 2 (2016). © Assumption University. All rights reserved. ISSN: 1686-0039.

Dr. Nopphon Tangjitprom is an assistant professor of finance at the Martin de Tours School of Management and Economics, Assumption University, 88 Moo 8 Bang Na-Trad Km. 26 Bangsaothong, Samuthprakarn 10540, Thailand. E-mail: tnopphon@gmail.com. Ms. Preechaya Chavalittumrong is a lecturer of real estate management at the Martin de Tours School of Management and Economics, Assumption University. E-mail: preechaya.ch@gmail.com. Dr. Veeranuch Leelalai is a lecturer of finance at the Martin de Tours School of Management and Economics, Assumption University. E-mail: veeranuch@hotmail.com.