

Abstract

This thesis evaluates traditional real estate diversification strategy by region and by property type. Additionally, it provides common risk measures – reduction of total risk and tracking error. The main contribution is twofold. First, it extends the coverage of common real estate research to the area of the Czech Republic and Slovakia. To our knowledge, this is the first study of this kind on the local market. Second, this thesis accounts for non-divisibility of ownership. This is a specific attribute of real estate, which may deteriorate investors' efforts for optimal allocation. Researchers' methods depart from Capital Asset Pricing Model. Evaluation techniques include efficient and pseudo-efficient frontiers, quantiles of total risk and tracking error, both as a function of portfolio size and portfolio value. Main findings include: (i) there is no strictly superior strategy, but there is a difference for specific subcategories, (ii) impartible ownership decreases risk-adjusted performance, this might be partially overcome by leverage, (iii) diversification is costly and index tracking is hardly possible.

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