

## **Bibliographic Record**

JÍLEK, Jiří. *European Real Estate Investment Trusts: Analyzing Correlation with a DCC-GARCH Model*. Prague, 2012. 50 p. Master thesis (Mgr.) Charles University in Prague, Faculty of Social Sciences, Institute of Economic Studies. Supervisor: Tomáš Jandík MA MSc MRICS.

## **Abstract**

The main goal of this thesis is to study the interdependencies between returns of European real estate investment trusts (REITs) and other investment asset classes such as European equities, government bonds and commodities. The thesis is divided into two parts: in the first part, we describe the necessary background that led to the emergence of first REIT structures and also provide an overview of the European REITs market. In the second part, we apply the Dynamic Conditional Correlation GARCH (DCC-GARCH) model to examine correlations between the above mentioned asset classes. The general understanding of real estate is that it provides diversification benefits to a diversified portfolio. However, our results suggest that returns of European REITs and stocks show a relatively high correlation and more importantly, the correlation increases in time. These findings have significant implications for investors and portfolio managers who seek protection for their portfolios in time of market downturns. Our results further indicate low and decreasing correlation for government bonds, while the correlation between returns of REITs and commodities is low and increasing in time. The added value of this thesis lies in the employment of the DCC-GARCH model on the European REIT data.

## **Keywords**

Real estate investment trusts, European Union, diversification, correlation, DCC-GARCH model