An empirical investigation of relationship between REITs return and stock return: case of USA and Japan

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ABSTRACT

The main purpose of this study is to explore the relationship between REIT return and stock market return in the United States and Japan. By employing the Granger Causality test to examine the causality between REIT return and stock market return variables in the United States and Japan, respectively. Next, we applied Ordinary Least Square test to investigate the long-term relationship between REIT return and stock market return in the United States and Japan, respectively. Moreover, VAR model and Impulse Response Function were used to investigate the relationship between REIT return and stock return in the short-term and provide the results from a shock to the variables in the system. Our empirical results find that REIT return causes in stock market return in both countries but it is not true in the reverse. Therefore, investors can rely on the past performance of stock return to predict the behavior of REIT return in both countries. Furthermore, the results of Ordinary Least Square test reveal that there exists a long-term relationship between REIT return and stock return in the United States and Japan, while we also found a positive relationship between Japan REIT return and United States stock return. Finally, Impulse Response Function results reveal that the response to shocks of United States stock return is stronger and longer than Japan stock return.

Keywords: REIT return, stock return, Granger causality, VAR model, impulse response function

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