

# Variance Decomposition of REIT Returns\*

Anish Goorah<sup>†</sup>  
MILLEN  
GROUP

Suzhen Huang  
MILLEN  
GROUP

Fotis Mouzakis  
CASS BUSINESS SCHOOL  
AND MILLEN GROUP

Jin Shi  
MILLEN  
GROUP

July 7, 2008

PRESENTED AT ERES 2008 CONFERENCE, KRAKOW, POLAND

## Abstract

This paper carries out a variance decomposition of the NAREIT returns using a VAR model with dividend yields, a term structure component, and a stock market component. The model is estimated under both the classical and the bayesian procedure. A Normal-Wishart prior is used to estimate the bayesian version of the model. Our main results are that estimation of the model under the classical method may give rise to biases and that “news about dividends” account for most of the variance seen in the NAREIT returns.

---

\*We are grateful to William Gordon-Harris and the participants of the ERES 2008 conference for valuable comments and help provided.

<sup>†</sup>Correspondence: Anish Goorah, Millen Group, 28th Floor, 30 St. Mary Axe, EC3A 8BF, London. Tel: 0207 929 1129, fax: 0207 929 4784, email: a.goorah@millengroup.com