

AN *EX ANTE* MODEL FOR DIRECT REAL ESTATE RISK AND RETURN ESTIMATION

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Abstract

This paper investigates the merits of a unique real estate risk-and-return estimation model. In this model, we rigorously integrate the bond duration-convexity concepts, the real estate return Beta distribution function and the real estate equivalent yield valuation model. Only very limited information through the lease structure of a direct real estate asset is required for this model of risk and return estimation. No historical data is utilized in estimating the real estate risk and the expected return via this model. Empirically this model offers a useful and innovative approach to the risk-and-return estimation of new direct real estate assets, which do not have past time series.

Key Words: Ex Ante, Direct Real Estate, Risk and Return.