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HOW THE LEADING REIT AND STOCK MARKETS OF THE WORLD ADJUSTED DURING THE SUBPRIME AND EUROPEAN DEBT CRISES: A NON-LINEAR M-TAR CO-INTEGRATION APPROACH

Abstract:

The paper analyzes the co-integration relationship between REIT and stock markets of the ten developed economies during the 2005-2013 period. That period is characterized by two successive shocks the first of which was related to the U.S. subprime problems while the second was related to solvency problems in Europe. The basic statistical data implies that the markets were recovering from the first shock when the second shock started. Due to the different characteristics of these two shocks, it is a more proper approach to divide the observation set in four equal subsets and analyze each case separately. Given the huge structural break in financial data after the onset of subprime crisis, it is more appropriate to use non-linear M-TAR co-integration rather than static and linear Johansen approach for identifying the correlations. The results strongly suggest that co-integration between stock and REIT markets was not a globally observed feature prior to the crises. The strong and globally valid co-integration relationships between stock and REIT markets observed after 2007 was due to the common negative response of both markets to the unexpected massive shocks. The common negative response of both markets also led to bilateral causality and strong feedback effects during the crisis period which strictly limited the diversification benefits of REIT markets.

Keywords:

REIT, Stock Market, Cointegration, Crises

JEL Classification: G01, G15, G11