Correlation between FTSE NAREIT Index and Three Major Equity Market REIT Indices

Alex Stanley
Faculty Mentor: Don Johnson
Finance

Since the housing bust, the correlation between stock markets, such as the Dow Jones, and their respectable REIT indices has been increasing. On a 12-month-rolling-average the correlation between the Dow Jones REIT index and the Dow Jones Industrial Average (stock) can be as high as 93%. Considering a perfect correlation in +1, a high correlation between REITs and stocks may discourage investors from investing in REITs. The correlation between the returns of FTSE NAREIT US Real Estate Index and three major equity market REIT indices: S&P 500, Dow Jones Industrial, and the Russell 2000 will be examined via separate Pearson Correlation Coefficient Matrices. The NAREIT index is one of the more popular (biggest) ALL REIT indices, so it will act as a gauge of the ALL REIT market. Since the correlations between equity markets and their respective REIT indices can be nearly perfect at times, finding the correlations between those equity market REIT indices an independent ALL REIT index may be able to sign regarding the general correlation between stocks and REITS. High correlations between the NAREIT index and those equity market REIT indices may signify the overall correlation between stocks and REITs is increasing more than expected. The correlation between stocks and REITs is said to be around 70%, compared to the pre-housing bust correlation of 50%. (219 words)