

From Property Companies to Real Estate Investment Trusts: The Impact of Economic and Property Factors in the UK Commercial Property Returns

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A great deal of research has examined comovements between commercial real estate returns and macroeconomic variables in the US economy. These relationships have attracted less research interest for the UK real estate market, despite this being the largest European Market. This cross-sectional and time-series study targets this gap in the literature by investigating the impact of economic and property factors – e.g. the UK IPD all property returns, the FTSE all share index returns, and the term structure of interest rates – on commercial property returns. It examines a sample of UK property companies which turned into real estate investment trusts (REITS) following the introduction of the UK legislation permitting this from January 2007. By applying structural time-series modelling and the Kalman Filter to obtain unexpected changes or innovations in selected economic and property variables it was found that economic and property variables influence commercial property returns in the UK. It was also found that by converting property companies into REITS their returns quickly acquired common features of both equities and commercial property backed assets.

Keywords: REITS, property returns, innovations, Kalman Filter, unobserved components models.

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