Introduction

Over the past six years, the growth of the real estate investment trust (REIT) market has been nothing short of spectacular—from a market capitalization of about $13 billion at the end of 1991 to more than $140 billion at the end of 1997. Even so, public market penetration into commercial real estate is still at low or very low levels. For example, Research at Prudential Real Estate Investors estimated in August 1997 that public market penetration into the office, warehouse and apartment sectors was only 2.6%, 3.7% and 7.4%, respectively. Although the public market has already controlled 17.3% of the hotel rooms and 21.9% of the regional malls in the United States, these penetration levels are still much less than the 50% plus penetration commonly achieved by mature industries.

As REITs and other public real estate companies further infiltrate the historically private commercial real estate market, public market real estate investments will inevitably account for an increasingly larger proportion of investors' portfolios. Consequently, research on the public real estate market is in high demand.

The American Real Estate Society, in cooperation with and support of the National Association of Real Estate Investment Trusts (NAREIT), proudly presents this timely issue of ***The Journal of Real Estate Research*** devoted to REITs. The financial support of NAREIT for this important project is appreciated.

Edward Nelling and Joseph Gyourko study the predictability of monthly returns on equity REITs and compare it with that for small- and mid-cap firms. Evidence is found that monthly equity REIT returns are predictable based on past performance. However, the predictability is not substantial enough to cover typical transaction costs. Su-Jane Chen, Cheng Hsieh, Timothy Vines and Shu-Nuaan Chiou investigate the cross-sectional variation in equity REIT returns. They conclude that beta does not explain the return variation but size does. Jianping Mei and Hsien-hsing Liao find that expected excess returns of real estate securities are more predictable than those of value-weighted stock and bond indices. They also find that risk premiums of real estate securities vary substantially over time.

Using the cross-spectral analysis, Pete Oppenheimer and Terry Grissom investigate the frequency space correlation between REITs and stock market indices. Their results show that REITs and stock market indices co-move significantly in the frequency space domain. Arjun Chatrath and Youguo Liang examine the long-run relationship between REITs and inflation using co-integration tests. They are only able to find very weak evidence in support of REITs providing a long-run inflation hedge. Co-integration and causality test results from Ling He's study suggest that there is a stable long-run linear relationship between equity REIT and mortgage REIT prices and that a causal relationship running from equity REITs to mortgage REITs exists.

Colin Lizieri, Steven Satchel, Elaine Worzala and Roberto Dacco' explore price movements of real estate securities in both the U.S. and the U.K. markets using a threshold autoregressive model. They find that this model offers better predictive power than a more conventional linear autoregressive model.

Su Han Chan, Wai Kin Leung and Ko Wang document a reversal in the trend of institutional investors' participation in the REIT market. Prior to 1990, the percentage of REIT stock held by institutional investors was much lower than the percentage of non-REIT stock held by institutional investors. After 1994, however, REIT stocks, on average, attracted more institutional investors than non-REIT stocks. Roger Shelor and Dwight Anderson analyze changes in operating performance of REITs following an initial public offering (IPO). REITs are found to have significant increases in return on assets and select measures of financial performance after an IPO. Chinmoy Ghosh, Randall Guttery and C. F. Sirmans investigate the contagious movement of REIT stock prices in response to real estate news related to financial institution's real estate portfolios. Significantly negative reactions to these announcements are found for a portfolio of 69 REITs during the real estate crisis of 1989–91.

William Hardin examines executive compensation in equity and concludes that size and several other factors contribute to senior executive compensation. Swint Friday and G. Stacy Sirmans analyze the influence of REIT board of director composition and characteristics on firm value. Their findings reveal that the market values outside representation on the board, but only up to a point.

It has been our pleasure to deliver this special issue to readers of ***JRER***.

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