RESEARCH ON APPLICATIONS OF CAPM IN REAL ESTATE PORTFOLIO MANAGEMENT IN BEIJING

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Abstract
As one of major theories in the financing management, the Capital Asset Pricing Model (CAPM) has great significance in many fields, such as the quantity analysis of risk and expected return in real estate investment, and the determination of the balanced price in the market. Based on the analysis of the parameters in the CAPM and its principles, this paper discusses the relationship between the risks and returns in property and stock investments in Beijing, using the data covering 1991 to 1999. It is found that property investment has many advantages. Returns from direct property investment have a low correlation with those of stocks, and some of the unsystematic risk of property investment is rewarded by the market. This paper suggests that direct property investment should be included in a mixed-asset portfolio to reduce risk and to stabilise return.

Keywords
Capital Asset Pricing Model; Property Investment; Risk; Return

INTRODUCTION

Development of the real estate industry in China only began in the early 1980s. Before this, houses were supplied by the government and local units (danwei), which would distribute them to every family. Individuals were forbidden to sell and buy houses. However, the government began to release the restrictions in the housing market, and the real estate industry flourished. With established laws and policies, the real estate market has developed very fast and become more normative. At present, the property market has become relatively mature when compared with the past, especially in the residential (including apartments) and office sectors. Investors in China are expressing a rising interest in stocks. Many investment theories in this field have been imported from the West. When Chinese investors buy and sell their stocks, they pay great attention to diversifying their investments to reduce risk and to stabilise their returns. Because the stock market in China has also been set up for a relatively short period, and the part of speculation in the market is more obvious, returns from the stock market are generally higher and more unstable than those of Western stock markets. In China, properties are mostly regarded as consumable, not investment elements. Properties are seldom included in portfolios, though they have many advantages. Property has a low correlation with stocks, and has long been considered as a hedge against inflation (Chiang and Ganesan, 1996). As the capital of China, Beijing is expected to emerge as a key city in Asia for regional property investment. Domestic housing reform is being implemented and a mortgage industry is developing in China, which means that the great potential of Beijing property is beginning being realised. It can be said that high-grade properties, with the establishment of a perfect property market in China, especially for apartments and office buildings, will become appealing and gain more investment attention.