Title: Systematic risk of Islamic REITs and conventional REITs in Malaysia

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Abstract: In this paper, we evaluate the systematic risks of Islamic real estate investment trusts (REITs) and conventional REITs in Malaysia for the period from August 3, 2005 to December 19, 2014. Our results show that Islamic REITs have lower systematic risks than other conventional REITs. The results are consistent when stochastic betas are estimated using time-varying coefficient models. We also find that new Islamic REIT entry creates significant risk reduction effects for the conventional REIT markets. When we test the effects of the conversion of Axis REIT from a conventional REIT to an Islamic REIT, we find that the systematic risks of Axis REIT significantly reduce between the periods "before" and "after" the conversion. The findings imply that the lower betas of Islamic REITs could protect REIT investors against stock market volatilities that could not be diversified away.