Hotel Real Estate in a Property Investment Portfolio: Analysis of Results From 1992-2001

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ABSTRACT

This paper analyses the performance of five real estate sub-sectors (office, retail, industrial, apartment, and hotel) over a ten-year (historical) period, 1992 to 2001, in order to assess the impact the hotel sub-sector would have when constructing a multi-property investment portfolio. The research was built on the foundation of modern portfolio theory and data were analyzed using correlation analysis, Sharpe Ratio, and a portfolio simulation model. Research results suggest that at least during the period 1992 to 2001, the hotel sub-sector outperformed all other sub sectors in terms of total returns and also produced the second best risk-adjusted returns. The results also suggest that the inclusion of hotels in the real estate investment portfolio had a significant impact on the efficient frontier offering several “higher risk – higher return” target options for an investor. As such the significance of the hotel sub-sector within a multi-property real estate investment portfolio is better understood.