



# **Do Mortgage REITs Reflect the Underlying MBS Market Performance?**

Xiaoqing Eleanor Xu,<sup>a</sup>

a. Professor of Finance, Stillman School of Business, Seton Hall  
University, 400 South Orange Avenue, South Orange, NJ 07079, USA

---

**Abstract:** Equity REITs own and operate income-producing real estate properties, while mortgage REITs (MREITs) invest in mortgage loans and/or mortgage-backed securities (MBS). Since MBS are debt instruments created through securitization of mortgages, the MREIT and MBS markets should be closely related due to the similarity in their underlying asset claim. This study shows that MREITs and the underlying MBS market indices exhibit completely different return and risk characteristics. In addition, returns on MREITs are much more strongly driven by the stock market systematic factors than the underlying MBS market factors. The results are remarkably robust using either daily or monthly data, full sample or subsample data, and residential or commercial MREITs data. While these results suggest possible inefficiency of the MREIT market, we discuss the limitation of this study and implications for future research.

---

## **1. Introduction**

In the past two decades, dramatic growth in both the equity and debt sides of real estate has led to increasing investor interest in Real Estate Investment Trusts (REITs). As of 2009, there are 142 REITs traded on stock exchanges in the U.S. with a total market capitalization of \$271 billion, which is equivalent to 23 times the total REIT market capitalization 20 years ago. REITs can be classified into one of three categories: equity REITs (EREITs), mortgage REITs (MREITs) or hybrid REITs. EREITs own and operate income-producing real estate