ALTERNATIVE INVESTING

A Note on REIT Bankruptcy and Intra-Industry Information Transfers: An Empirical Analysis

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In this article, we review the capital markets' response to the bankruptcy of Residential Resources (Res Res), a Real Estate Investment Trust (REIT), less than a year after its initial public offering in 1988.

We find a significant event day value decline for a broad portfolio of REITs. REITs whose portfolios are most similar to Res Res experienced both a significant value decline and an increase in bankruptcy risk on the event day. REITs with dissimilar portfolios experienced neither of these effects.

Among the REITs with similar portfolios to Res Res, leverage ratios explain 84% of the event day value declines. Our findings suggest that ignoring intra-industry firm differences can lead to spurious conclusions.

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