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# Real Estate as a Common Risk Factor in Bank Stock Returns

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## 1 Abstract

2 This article investigates the potential role of real estate risk in the pricing of US bank  
3 stocks from February 1990 to December 2015. Generalized method of moments estimates  
4 of conditional multifactor models are provided. The real estate risk is proxied by the  
5 return of an investment strategy that is short on low-leverage real estate investment trust  
6 (REIT) assets and long on high-leverage REIT assets. We group banks into portfolios  
7 based on their market capitalization, real estate loans as a proportion of total assets, and  
8 book-to-market ratios. The results suggest that the real estate premium is a relevant  
9 risk factor in bank stocks returns. For instance, we find that a 100-basis-point increase  
10 to the real estate premium increases returns by 15.8 to 20.1 basis points for portfolios  
11 grouped by market capitalization. This conclusion remains when other oft-cited bank  
12 risk factors are considered, including small-minus-big, high-minus-low and the return on  
13 equity of the financial sector.

*JEL Classification Codes:* G12; G21; R3

14 *Keywords:* Asset pricing, Real estate risk, Bank stocks, Multifactor  
15 models, GMM

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