Evaluating Diversification Strategies for Direct Property Investment Portfolios

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Executive Summary. This paper evaluates diversification strategies adopted in direct property investments in the Nigerian property market. Annual holdings returns were calculated from the data on rental transactions and capital values of properties for the 1998-2003 period. Under the assumption that investments are held long-term, constant correlation model or excess return to standard deviation represents the covariance structure of assets’ returns, the findings revealed that geographic naive diversification strategies underperformed most of the efficiently diversified portfolios constructed using constant correlation model. Most of the performance results were found to be statistically significant at the 0.05 level. The results indicate that an efficient portfolio may not be more efficient than a naïvely diversified portfolio in all cases.