

## **Informed Traders and the Market Microstructure of Real Estate Investment Trusts**

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A significant body of research exists documenting that REITs perform differently from other types of equity securities, although the reasons for these differences are unclear. This study examines the intraday trading behavior of Real Estate Investment Trusts (REITs). Specifically, we examine intraday REIT returns, volume, trading activity and bid-ask spread in an attempt to obtain a better understanding of the patterns of intraday information flow for a sample of REITs trading on the NYSE. After controlling for differences in market capitalization, share price, and institutional holdings, we test for differences between REITs and non-REITs, and between REITs which are widely held by institutions and those which are not. Our results suggest that as a group, REITs generally exhibit lower average volume and trading activity than non-REITs. In addition, we find mortgage REITs generally trade at spreads lower than those of typical non-REITs, while equity REITs trade at spreads which are wider than those of similar non-REITs. Surprisingly, our analysis of institutional ownership suggests that equity REITs which are widely held by institutions exhibit the largest divergence from non-REITs in terms of both intraday trading activity and volume, but at the same time trade closer to non-REITs in terms of bid-ask spread. Overall, our results confirm that REITs are treated differently by traders versus similar non-REITs, and our institutional ownership findings indicate that trading activity is less important as a determinant of REIT performance than the level of institutional ownership in the REIT.