Weekend and Announcement Effects: The Case of Equity Real Estate Investment Trusts

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There are a large number of research issues in the financial literature that have not been tested for real estate because of lack of frequent and consistent data. New indexes of real estate performance for equity real estate investment trusts (EREITS) have recently been developed which allow these types of tests for the first time. This paper looks at two phenomena that have been widely researched in the finance literature: the weekend effect, and the effects of announcements on returns.

The first question concerning the weekend effect refers to the commonly found empirical result that stock returns earned on Mondays are consistently negative. From Friday's market close through the close of the market on Monday, stock returns have been found to be significantly negative for all types of stocks, and for stocks in all countries that have been studied. In these studies, data support the notion that investors receive information from brokers during the week, and 77% of all of the broker recommendations are to buy individual stocks. Over the weekend, the investor is able to sort through the financial press received during the week and come to his own conclusions regarding investments. From this information, the investor makes investment decisions, and most of Monday's decisions, made independently of broker recommendations, are to sell stocks. We test for the weekend effect using data from 1989 to 1993, when the equity REIT market went through a period of tremendous growth and change.

The second question that we attempt to answer is the impact on daily REIT returns of new information that comes to the market over the weekend. In the equity REIT market, the broadest, most consistent source of information appears in a *Barrons* column entitled "The Ground Floor." This column usually includes a great deal of information regarding individual REITs, including financial strength, financial performance, and opinions about management and other characteristics. Consistent with the earlier argument about information coming to the market, we look at how this information affects the returns of individual REITs. The effects of these announcements are tested during 1993, when a large number of new REITs came to the market, and new information, in the form of "The Ground Floor," came to the market on a regular basis.

The first conclusion to be drawn is that the weekend effect seems to be different for different types of stocks. For example, we find no evidence of a weekend effect for the Wilshire Real Estate Investment Trust Index (WREIT) or for the Standard and Poors 500 Index. This is in contrast to the results found in the large majority of financial studies that have been done. There is an effect for small stocks as represented by the Russell 2000 Index (R2000), which *is* consistent with previous studies. Results for each of the years from 1989-1994 show that there are very few years in which a significant negative return is found for Mondays. Unlike the other indexes, however, the Monday return is negative, but not always significantly so, for Mondays in all years within our sample.

The second set of tests attempts to determine whether information that comes to the market over the weekend when the market is closed has an impact on stock returns on Mondays. Information on individual REITs mentioned in "The Ground Floor" is coded to determine whether it is of a positive or a negative nature. Further, information for each REIT is coded according to whether it is merely the reporting of historical performance, or it is a comment or opinion regarding an individual company. Our hypothesis is that information regarding performance is already known by the market and, as such, should have no impact on share prices. The finance literature suggests that other news, whether positive or negative, should also have no impact on share prices.

If all of the information had been expected by the market prior to its publication over the weekend, then excess returns earned before and after the weekend should be zero. In several cases in our paper, we find that this is not the case. For example, on the Friday before the weekend in which individual REITs are *commented upon in a positive way* in "The Ground Floor," average stock prices of these REITs *increase significantly*. Similarly, on the Friday before the publication of *positive performance* in "The Ground Floor," stock prices of those companies that are discussed *increase significantly*. The obvious question to ask is why would companies whose names are going to be mentioned in a positive light in *Barrons*, which is published over the weekend, exhibit share prices that increase on Fridays? We do not currently have an explanation for this phenomenon due to lack of trading volume data around these dates. However, since the *Barrons* deadline is on Thursday, analysts who have been quoted that know that a positive story is coming out may trade on the information prior to its publication. This reasoning, however, is purely speculative.

Less speculative is our argument for the negative abnormal return found on Mondays for stocks whose names were mentioned with a *negative opinion* in "The Ground Floor" over the weekend. For these stocks, the *decrease* in return was significant on the Monday following the negative news, indicating that shareholders may indeed have incorporated the weekend's news into their selling decisions on Mondays. For stocks for which performance data was listed in the column, however, the abnormal return was insignificantly different from zero.