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REAL ESTATE AS AN ALTERNATIVE INVESTMENT ASSET: A STUDY ON RISK–RETURN CHARACTERISTICS AND INVESTOR PERCEPTION

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Abstract:

This study examines real estate as an alternative investment asset in comparison with traditional financial instruments such as equities and bonds. The research evaluates risk-return characteristics, diversification benefits, financing mechanisms, valuation practices, and investor perception toward property investments. The objectives of the study are: (1) to assess real estate's effectiveness as an alternative asset class, (2) to analyze its risk-return structure relative to traditional investments, (3) to evaluate investor preferences across demographic groups, and (4) to determine diversification potential within investment portfolios. Primary data were collected through structured questionnaires distributed among 102 respondents using simple random sampling. Statistical analysis including mean comparison, percentage analysis, and hypothesis testing was conducted. The findings indicate that real estate demonstrates distinct risk-return characteristics, strong income stability, and long-term capital appreciation potential, thereby reinforcing its strategic role in diversified investment portfolios.

Keywords: *real estate investment, alternative assets, diversification, risk-return analysis, portfolio management, inflation hedge.*

Introduction:

The evolving global financial environment has encouraged investors to diversify beyond traditional assets such as stocks and bonds. Real estate has increasingly emerged as a significant alternative investment asset due to its tangible nature, income-generating potential, and long-term appreciation prospects.

Real estate refers to land and permanent improvements attached to it, including residential, commercial, industrial, and special-purpose properties. Unlike financial securities, real estate provides both consumption value and financial returns. It plays a crucial role in economic development by contributing to employment, infrastructure growth, and national income.

With rapid urbanization, infrastructure expansion, and demographic shifts, property markets have gained prominence among individual and institutional investors. However, real estate markets are cyclical and influenced by interest rates, regulatory frameworks, liquidity conditions, and macroeconomic trends.

This study investigates whether real estate functions effectively as an alternative investment asset and evaluates its performance relative to traditional investment avenues.

Literature Review:

Golan (2023) examined the role of real estate as an alternative investment in diversified portfolios. The study compared the performance of real estate with traditional assets such as stocks and bonds. The findings revealed that real estate investments generally

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provide relatively stable returns with lower volatility compared to equities. Additionally, the study highlighted that real estate assets can serve as an effective hedge against inflation and help improve portfolio diversification. However, real estate investments also involve specific risks such as liquidity constraints, high transaction costs, and market-specific uncertainties. The research concluded that including real estate in investment portfolios enhances portfolio efficiency in terms of the risk–return trade-off and provides long-term wealth accumulation opportunities for investors. Lin (2022) analyzed the intertemporal relationship between risk and return in housing markets using the Intertemporal Capital Asset Pricing Model (ICAPM). The study found a significant positive relationship between risk and expected returns in the real estate sector. Higher levels of market risk were associated with higher potential capital gains, indicating that investors demand a risk premium when investing in housing assets. The research emphasized that real estate behaves similarly to other financial assets in terms of the risk–return trade-off. Furthermore, the study highlighted the importance of understanding market volatility, regional variations, and macroeconomic conditions when evaluating property investments. The findings suggest that investors should consider both expected returns and risk factors when allocating funds to real estate as an alternative investment asset. Lausberg et al. (2020) examined different risk measures used in direct real estate investments. The study argued that traditional measures such as return volatility alone may not adequately capture the risks associated with property investments. Real estate markets are characterized by unique risks including illiquidity, valuation uncertainty, and location-specific factors. The authors proposed that multiple risk assessment tools should be applied to evaluate real estate performance accurately. Their findings suggest that investors often underestimate certain risks due to the relatively stable price movements observed in property markets. The research concluded that a comprehensive risk assessment framework is necessary to evaluate the true risk–return characteristics of real estate investments and to assist investors in making informed decisions.Lim, Adair, and McGreal (2002) investigated investor perceptions regarding real estate investment opportunities in Southeast Asia through survey-based research. The study found that investors' perceptions of risk significantly influence their investment decisions in property markets. Institutional and international investors tend to prefer markets with familiar economic environments and regulatory systems. The research also highlighted differences in risk perception among various investor groups, with some investors demonstrating greater risk aversion than others. These perceptions affect investment strategies, market entry decisions, and portfolio diversification. The study concluded that investor behavior and perceptions play a crucial role in shaping real estate investment patterns and market dynamics.

Methodology:

1. Objectives of the Study

1. To examine real estate as an alternative investment asset.
2. To analyze risk and return characteristics.
3. To evaluate diversification benefits.
4. To assess investor perception and preference toward real estate.

2. Hypotheses

Hypothesis I:

H_0: Real estate does not significantly differ from traditional investment assets in terms of risk-adjusted returns.

H_1: Real estate significantly differs from traditional investment assets in terms of risk-adjusted returns.

Hypothesis II:

H_0: Demographic factors (age, income, occupation)

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do not significantly influence preference for real estate investment.

H_1: Demographic factors significantly influence preference for real estate investment.

3. Data Collection:

Primary data were collected using structured questionnaires distributed via Google Forms. A total of 102 responses were obtained.

Secondary data were gathered from journals, academic publications, financial reports, and market analyses.

Sampling technique: Simple random sampling. Analytical tools used:

- Percentage analysis
- Mean
- Standard deviation
- Comparative analysis

Data Analysis:

1. Demographic Profile

Table 1: Age Distribution

Age Group	Percentage
17–20	45%
21–40	15%
40–50	25%
51 & Above	15%

The majority of respondents (45%) belong to the 17–20 age group.

Table 2: Gender Distribution

Gender	Percentage
Male	55%
Female	45%

Gender participation is relatively balanced.

Table 3: Occupation

Occupation	Percentage
Student	44%
Salaried Employee	21%
Service	26%
Business Owner	5.9%
Retired	2.9%

Students and working professionals dominate the sample.

2. Investment Behaviour

Table 4: Investment Participation

Have you invested in Real Estate?	Percentage
Yes	90%
No	10%

A vast majority have invested in real estate.

Table 5: Preferred Investment Type

Investment Type	Percentage
Residential Property	41%
Commercial Property	33%
Land/Plots	24%
REITs	2%

Residential property is the most preferred option.

Table 6: Purpose of Investment

Purpose	Percentage
Rental Income	51%
Capital Appreciation	27%
Tax Benefits	14%
Long-Term Security	8%

Rental income is the dominant motivation.

Hypothesis Testing:

Hypothesis I: Risk–Return Characteristics

A comparative analysis of risk-return perception was conducted using mean score evaluation.

Table 7: Risk–Return Comparison Summary

Investment Type	Perceived Stability (Mean)	Return Potential (Mean)
Real Estate	4.21	4.08
Stocks	3.45	4.30
Bonds	4.05	3.20

Discussion:

Real estate demonstrates higher perceived stability than equities and competitive return potential compared to bonds. Its lower volatility relative to stocks and

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consistent rental yield support its classification as a differentiated asset class.

Therefore, the null hypothesis is rejected. Real estate significantly differs from traditional assets in risk-return characteristics.

Hypothesis II: Demographic Influence

Table 8: Investment Preference by Income Level

Income Level	Preference for Real Estate (%)
Below ₹25,000	38%
₹25,000–₹50,000	42%
₹50,001–₹1,00,000	61%
₹1,00,001–₹2,00,000	74%

Discussion:

Higher income groups show stronger participation in commercial and diversified property investments. Younger respondents prefer residential properties, while middle-income groups prioritize rental income.

Thus, demographic variables significantly influence investment preference. The null hypothesis is rejected.

Conclusion:

The study confirms that real estate functions as a strategic alternative investment asset. It offers:

- Portfolio diversification
- Stable rental income
- Long-term capital appreciation
- Partial inflation protection

Although liquidity constraints and regulatory complexities exist, real estate remains a dominant asset class among investors seeking wealth preservation and income stability.

The findings support the rejection of the primary null hypothesis and establish real estate as a distinct and valuable component of diversified portfolios.

Future Research Implications:

Future studies may explore:

- Comparative Sharpe ratio analysis between real estate and equities
- The growing role of REITs in emerging markets
- PropTech and digital valuation systems
- ESG integration in property investment
- AI-based predictive models for real estate markets

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