ABSTRACT

The total risk of an investment can be decomposed into a systematic and an unsystematic component. Systematic risk is uncertainty due to overall market changes. It cannot be eliminated through diversification. Unsystematic risk is uncertainty unique to a particular investment. It can be reduced or eliminated through diversification.

Much of the work on Capital Market Theory is focused on the way systematic risk can be measured. It was first evolved to measure the performance of company shares but is equally applicable to real estate. The actual measure used is known as the 'beta coefficient'.

This study demonstrates the application of the Capital Asset Pricing Model (CAPM) on the investment performance of real estate in Singapore. Within the CAPM framework, relationships between risk and return are derived. The beta coefficient and its corresponding expected return are determined. They are then used to examine the relative investment potential of the sample properties.