

The Effect of Real Estate Investment Trusts in The Systemic Risk of Financial Markets: An Empirical Research

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Abstract

Financial product innovation has both an enhancing and a restraining effect on the systemic risk of financial markets. To investigate the role of Chinese real estate investment trusts (C-REITs) in the transmission of systemic risk, we construct a multi-layer information spillover network based on the Time-Varying Parameter Vector Autoregressions model (TVP-VAR), which combines spillover indices and block models to analyze the risk interconnection between C-REITs and 11 financial sub-markets. The results show that the C-REITs market, whether in terms of individual entities or clusters, not only plays an important role as a risk absorber, but serves as a crucial catalyst that helps reduce the overall connectivity of the financial system and weakens the inter-layer similarity of the multi-layer information spillover network, thereby mitigating the systemic risk of the financial markets. The study expands our understanding of risk spillover issues in the REITs market from the perspectives of block models and multi-layer networks, providing meaningful guidance for investors and policymakers in their decisions pertaining to REITs.

Keywords: REITs; Spillover effect; Systemic risk; multilayer networks