Characteristics of Listed Property Trust Initial Public Offerings in Australia 1994 to 2008

This paper follows Dimovski and Brooks (2006a) who investigate the underpricing of Listed Property Trust (LPT) initial public offerings (IPOs) in Australia from 1994 to 1999. This study investigates Australian LPTs from January 1994 to June 2008 and reports a variety of descriptive statistics on 82 such IPOs. The study has two major findings, firstly that LPT IPOs listed after 1999 offered statistically significant underpricing returns to subscribers and secondly that post-1999 LPT IPOs were subscribed much more quickly than those of 1994 to 1999.

Introduction

Initial public offerings (IPOs) of equity capital are a common occurrence in financial markets around the world. Companies and trusts looking for additional equity capital sell their shares or units to the investing public with the investing public subsequently owning a relatively liquid investment able to be sold on a stock exchange. While this financial transaction seems ordinary enough, the academic literature has uncovered the fact that extraordinary returns have been theoretically able to be earned, on average, by subscribers to these new issues. These returns are the result of the issue price of a company's shares being below the price at which the shares subsequently trade on the first day. The terms generally used to describe this are underpricing returns or simply underpricing.

Some US industrial company IPO studies [Ibbotson (1975), Ritter (1987), Ibbotson, Sindelar and Ritter (1994)] reported average underpricing returns of between 11.4% and 47.8%. Some Australian industrial company IPO studies [Finn and Higham (1988), Lee Taylor and Walter (1996) and Dimovski and Brooks (2004)] reported average underpricing returns of between 16.4% and 29.2%. Su and Fleisher (1999) reported the largest average underpricing return to date at 948.6% for Chinese A-class IPO shares between 1986 and 1996. Recall these are average returns theoretically able to be earned by subscribers to the IPO from the date of their subscription to the date of listing.

Subscribers to listed property trust (LPT) and real estate investment trust (REIT) IPOs have not achieved anywhere near the average returns that subscribers to industrial company IPOs have earned. Wang, Chan and Gau (1992) report that US REIT IPOs during 1971 to 1988 had a 2.82% average overpricing while Ling and Ryngaert (1997) identifying US REIT IPOs during 1991 to 1994 report an average 3.6% underpricing. Dimovski and Brooks (2006a) identified that Australian LPT IPOs during 1994 to 1999 offered an average return to subscribers that was not statistically different to zero.

Beatty and Ritter (1986) were the first to argue that underpricing was a function of the uncertainty about the value of the IPO. Essentially, the more uncertainty about the value of the issuing company's equity, the higher the underpricing required by the issuer. Wang, Chan and Gau (1992) concur and suggest that because REITs hold underlying real assets, these provide a useful basis of support for the valuation of the IPO.
The purpose of this paper is to examine Australian LPT IPOs from January 1994 to June 2008 to report a variety of descriptive statistics and to identify whether the post-1999 LPT IPOs continue to offer a return to subscribers that is not statistically different to zero. The primary equity capital raised in this period was during a steady to rising to even bull market. A period that is clearly different to the present market where the global financial crisis has delivered many severe blows to the listed property sector where debt capital raising has been difficult and liquidity has been vitally important.

The study partitions the LPT IPOs into various categories and identifies the number of LPT IPOs that offered stapled securities, used underwriters and were involved in retail or office property trust activities. It also reports the mean, median minimum and maximum values for the gross proceeds raised, the net tangible assets offered compared to the issue price, the forecast dividend yields for the forthcoming year, the number of days from the date of the prospectus to the date of listing, the target percentage debt to assets of the trust, the percentage cost of the issue compared to the capital raised, the underpricing returns to subscribers and the amount of "money left" by the issuer. The amount of money left refers to the underpricing in cents per unit multiplied by the number of units offered. It represents the gross amount foregone by the issuer, hence the expression money left. The study contributes two major findings. Firstly it identifies that the post-1999-IPOs were different to the LPT IPOs of 1994 to 1999 and offered an average 3.37% statistically significant return to subscribers. Secondly, post-1999 IPOs were subscribed substantially more quickly than the LPT IPOs of 1994 to 1999.
underpricing return of zero and a mean underpricing return that was not statistically significantly different to zero. In examining money left characteristics, Dimovski and Brooks (2006b) speculated that post-1999 LPT IPOs may offer higher underpricing returns than those of 1994 to 1999. The merging of the trustee and manager roles into a single Responsible Entity role was an important event at June 30, 2000. Dimovski and Brooks (2006b) argued that the removal of the trustee safeguard may result in more uncertainty about the value of the REIT IPO and hence may result in higher underpricing.

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Data and sources

The Connect 4 Company Prospectuses database was used for the majority of the data. This database provides electronic copies of the prospectuses used by companies and trusts in raising their new equity capital. The following data has been extracted from each of the LPT IPOs:

- the amount of equity capital raised
- whether the issue was stapled
- whether the major type of real estate activity conducted was retail or office
- whether the issue was underwritten
- the expected net tangible assets compared to the issue price at the conclusion of the IPO
- the forecast dividend yield for the next forthcoming full year
- the number of days taken from the date of the prospectus to the date of listing
- the forecast target debt to equity ratio of the LPT
- the cost of the issue as a proportion of the capital raised.

To determine underpricing returns and money left by the issuer, it was necessary to obtain the closing price of the units on the first day of listing. These closing prices were obtained from the Netquote Information Services database and some were verified with The Australian Financial Review newspaper. Underpricing returns were calculated as the closing price on the first day minus the issue price, divided by the issue price, all then multiplied by 100 over 1 to derive the percentage return. Recall money left was the underpricing in cents multiplied by the number of units issued.

Results

Of the 82 property trust IPOs during January 1994 to June 2008 48 were underpriced, 14 showed no underpricing and 20 were overpriced. The total amount of new equity capital raised for the period was $14.015 billion.

Table 1 reports various descriptive characteristics for the full sample and for some sub-samples of the data. A total of 14 LPT IPOs offered stapled securities, 15 were involved in retail activities as their major type of activity and 20 in office activities. A total of 68 of the 82 (or 83%) were underwritten. The average LPT IPO raised about $171 million of new equity from the IPO while the median capital raising was $103 million. The largest LPT IPO raised $790 million. The capital raisings took between 22 and 175 days from the date of the prospectus to the date the entity was listed, with the average of 57.5 days. The LPT IPOs in turn offered average net tangible assets of

The structure of this paper is as follows. Section 2 briefly summarises some previous property trust and REIT IPO research. Section 3 identifies the data and its sources. Section 4 reports the results. Section 5 contains some concluding comments.
around 93.7 cents for each dollar raised and forecast an average dividend yield of 9% for the next forthcoming full year. The majority of LPT IPOs were quite keen to leverage and the sample identified a mean average 48% debt to asset ratio and a median debt to asset ratio of 49%. The average issue costs were around 6.3% of the capital raised but ranged from a minimum of 1.6% to 16.7%. The mean underpricing return theoretically available to subscribers was a statistically significant 2.4% while the mean amount of money left by the issuing entity was slightly over $4.8 million.

Panel A of Table I partitions the data by the issue period. The first period was the 1994 to 1999 IPO period which involved both trustees and managers in the LPTs and the second was the post-1999 period which involved only a single responsible entity managing the affairs of each LPT. There were 37 IPOs (of which 33 were underwritten and only four of which offered stapled securities) in the earlier period and 45 (of which 35 were underwritten and of which 10 offered stapled securities) in the later period. The earlier period IPOs were a little larger on average than the later period IPOs (mean and median of $193 million and $117 million compared to $153 million and $100 million) and took a little longer to list (mean and median of 69.6 days and 58 days compared to 47.6 days and 45 days). The earlier LPT IPOs offered broadly similar net tangible assets coverage compared to the issue price at around 95 cents per dollar and broadly similar forecast dividend yields and debt to equity ratios at about 9% and 48% respectively. Interestingly issue costs were on average less at 5.4% for the earlier IPOs than the latter ones at about 7%. The underpricing return and money left characteristics of the earlier IPOs are statistically quite different. The earlier IPOs did not allow underpricing returns to subscribers and the median money left was zero. Later IPOs allowed a 3.37% mean underpricing return and the median money left was nearly $1.5 million while the mean money left was over $4.7 million and significant at the 5% level.

Panel B of Table I partitions the data by issue size and then by issue period. The major features here are that larger IPOs (over $100 million) are all underwritten regardless of the issue period; the time to list was substantially shorter for the

The winner's curse hypothesis suggests that better informed investors buy underpriced issues and do not offer to buy overpriced ones.
post-1999 LPT IPOs regardless of the size; issue costs for larger LPT IPOs appeared to be lower in the earlier period; underpricing returns were higher for smaller IPOs in the post-1999 period than in the earlier period (where a mean 1.1% overpricing occurred, and generally no money is left by the issuers).

Panel C of Table 1 investigates stapled securities overall and by issue period. Stapled securities generally consist of a unit in a trust and a share in a company. The unit and the share are generally not tradeable without the other. The trust is likely to be holder of some income-producing real estate while the company is likely to deal in property development activities. Of the 14 stapled LPT IPO entities, 13 were underwritten (the one that was not was only seeking $800,000 of public money), and were of the larger LPT IPO variety (raising mean gross proceeds of $137 million), listing in around 50 days. Interestingly though while the larger LPT IPOs offered a significant mean 2.9% underpricing return, these stapled ones offered a return statistically no different to zero.

Conclusion
This study investigated 82 LPT IPOs in Australia during January 1994 to June 2008. The descriptive results suggest that subscribers to the LPT IPOs after 1999 that intended to sell on the first day, on average, could achieve small but significant underpricing returns. It appears that the post-1999 LPT IPOs offered some uncertainty about their value, as in the US, but such very low underpricing also suggests that the underlying property assets for the Australian LPT IPOs may well be a base of support for the valuation of these IPOs. It is also interesting that the post-1999 IPOs were subscribed to and listed more quickly than those of 1994 to 1999.

Of course not only has the name now changed for these listed property trusts to the more universal term of "Real Estate Investment Trust" (or REIT) but financial markets have dramatically altered in recent times. The global financial crisis has hit REITs particularly hard. Instead of IPO capital raisings, the sector has concentrated on secondary equity capital raising to shore up balance sheets and lower gearing ratios. Ben Wilnot of the The Australian Financial Review of July 28, 2009, notes that the Australian REIT (or A-REIT) sector has raised around $14 billion of secondary equity capital from October 2008 to June 2009. This is an extraordinary amount of equity capital injection but then these are indeed extraordinary times.

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Full data tables available on request. Email: editor@apic.org.au

References


