Discounts and Underwriting Fees Associated with A-REIT Rights Issues

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What are Rights Issues?

Renounceable

Non-Renounceable
So how important is Australia?

• WFE ranks ASX as 11th largest in world
• Third largest in raising IPO and SEO capital in 2009
• Raised over 11% of SEO capital raised by 52 member exchanges
• A-entities raised A$60 billion in equity capital in 2008 (A-REITs raised nearly $10 billion in 2008 and 2009)
So how important are A-REITs?

- Own over A$200 billion in assets
- 6% of the ASX
- 14% of the global REIT cap
- Major institutions and pension funds are investors (Westfield - institutions own 66%)
- Raised over A$20 billion by rights issue during 2001-9 (3 times that raised by IPO during the same period.)
Past Literature

• Underwriting costs as % of proceeds – SEO or rights offerings not REITs
  – Smith (1977), US 71-75, 3.6%
  – Corwin (2003) US 80-98, 5.32%
  – Armitage (2000), UK 85-96 1.53%
  – Martin-Ugedo (2003), Spain 89-97 2.0%

• Discount
  – Balachandran et al. (2008), Australia 95-05 around 18%, Owen and Suchard (2008), Australia 93-01, around 19%.
  – Armitage (2000) UK 21%
  – Smith (1977) US 8%
Past Literature

Some Influencing factors

• Underwriting costs
  – Economies of scale (Armitage, 2000; Smith, 1977) ^ proceeds, v UC
  – Percentage underwritten (Martin-Ugedo, 2003) ^ perc uwritten, ^ UC
  – Ownership concentration (Hansen and Pinkerton, 1982) ^, v UC
  – Issuer risk – Std dev last 250 days - ^, ^ UC
  – Discount ^, v UC

• Discount
  • Issuer risk ^, v Disc
  • Proceeds/Mkt cap ^, v Disc
  • Volume (ave last 250 days) ^, v Disc
  • Underwriter status
  • Ratio of new for existing ^, v Disc
Aim

• This paper investigates factors that might influence these substantial costs:
  – Underwriter costs; and
  – Discounts

Of A-REIT rights issues during Jan 2001-June 2009
Data

• The sample period is from 2001-June 2009
• The databases used are FinAnalysis and SNL which allow data to be downloaded from ASX
• Over A$20 billion raised
  – 62 observations, 58 underwritten, 8 offered renounceable rights, nearly 4.5 in 10 use stapled securities.
Summary Stats

- Ave discount – 9.5% (median 7.7%)
- Ave Ufees – 2.9% (median 2.8%)
- Ave proceeds - A$354m
- Ave held by top 20 s/holders – 64%
- Ave %uwritten – 93%
- Ave std dev daily returns – 2.5%
- Ave new to existing ratio 0.458 for 1 (nearly 1:2)
Model

– PercUfee

\[
PERCUFEE = \beta_0 + \beta_1 \ln\text{proceeds} + \beta_2 \text{Perctop20} + \beta_3 \text{Disc} + \beta_4 \text{Post2007} \\
+ \beta_5 \text{Stddevbefore} + \beta_6 \text{Renounceable} + \beta_7 \text{Stapled} + \beta_8 \text{Percuwritten} + \epsilon
\]
Model

• Discount

\[ \text{DISC} = \beta_0 + \beta_1 \text{Lnproceeds} + \beta_2 \text{Stddev} + \ldots \]

\[ \text{DISC} = \epsilon_0 + \epsilon_1 \text{Percu} + \epsilon_2 \text{Stapled} + \ldots \]
Results

• UFEE results
• Higher risk, higher % underwriting costs (Armitage 2000 and others)
• Not seeing larger capital raisings, lower % underwriting costs–economies of scale – perhaps these issues are just so big anyway

• DISCOUNT results
• Higher issuer risk – larger discounts (Armitage 2000 and others)
• 2008 and 2009 – larger discounts