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# 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 11<sup>th</sup> 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%
  - Lee et al (1996) US 90-94, 5.44%
  - 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)  $\wedge$  proceeds,  $\vee$  UC
  - Percentage underwritten (Martin-Ugedo, 2003)  $\wedge$  perc unwritten,  $\wedge$  UC
  - Ownership concentration (Hansen and Pinkerton, 1982)  $\wedge$ ,  $\vee$  UC
  - Issuer risk – Std dev last 250 days -  $\wedge$ ,  $\wedge$  UC
  - Discount  $\wedge$ ,  $\vee$  UC
- Discount
  - Issuer risk  $\wedge$ ,  $\vee$  Disc
  - Proceeds/Mkt cap  $\wedge$ ,  $\vee$  Disc
  - Volume (ave last 250 days)  $\wedge$ ,  $\vee$  Disc
  - Underwriter status
  - Ratio of new for existing  $\wedge$ ,  $\vee$  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 %unwritten – 93%
- Ave std dev daily returns – 2.5%
- Ave new to existing ratio 0.458 for 1 (nearly 1:2)

# Model

– PercUfee

$$\begin{aligned} PERCUFEE = & \beta_0 + \beta_1 \text{Lnproceeds} + \beta_2 \text{Perctop20} + \beta_3 \text{Disc} + \beta_4 \text{Post2007} \\ & + \beta_5 \text{Stddevbefore} + \beta_6 \text{Renounceable} + \beta_1 \text{Stapled} + \beta_2 \text{Percuwritten} + \varepsilon \end{aligned}$$

# Model

- Discount

~~$D = \frac{1}{1+r} C_1 + \frac{1}{(1+r)^2} C_2 + \frac{1}{(1+r)^3} C_3 + \frac{1}{(1+r)^4} C_4 + \frac{1}{(1+r)^5} C_5 + \dots$~~

# 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