

The Role of the Underlying Real Asset Market in REIT IPOs

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Abstract

A leading explanation for IPO cycles is time-varying supply and demand for the underlying assets of the firms that are considering going public. We test this hypothesis using REIT IPOs, taking advantage of the relative transparency of the underlying real asset markets. We document links between REIT IPO activity and both the conditions of the underlying real estate market and the price of REITs. We find no significant relation between the heat of the IPO market and post-IPO operating performance, implying homogeneous firm quality across IPO cycles. Finally, we show that lagged IPO proceeds are related to future increases in investment and in capacity utilization.

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