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## European real estate equities: ownership structure and value of the firm

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[Journal of European Real Estate Research](#)

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ISSN: 1753-9269

Article publication date: 9 August 2011



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### Abstract

#### Purpose

The relationship between ownership structure and firm value has long been of interest in the academic society. The purpose of this paper is to study the relationship between European real estate investment trusts' (REITs) ownership structure and the observed firm value as measured by market-to-book (M/B) ratio. In addition, the potential effects of differing REIT ownership structures on other financial ratios, such as return on equity (ROE) and return on assets (ROA), are analyzed. Finally, the potential impact of strategic/insider ownership on REITs is assessed.

#### Design/methodology/approach

Several "difference between means" tests are run. In each test, the studied group of REITs is divided into three groups according to set criteria. Then, the potential differences observed between the groups are documented, analyzed and reported. Finally, statistical significance of the potential differences among groups is tested.

#### Findings

First, consistent with the previous studies, this study shows that increasing REIT block ownership results in lower M/B ratios as well as decreased dividend yield, ROE and ROA. In other words, the results suggest that, in terms of M/B ratio, the markets value REITs with low block holdings slightly higher than those with more block holders. However, the relationship is not totally explicit. Second, the relationship

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Practical implications

One of the fundamental ideas behind REIT legislation is to provide investors with a liquid means of investing in indirect real estate by regulating the ownership structure of the vehicle. The results of this study suggest that the more dispersed the shareholder structure, the higher the firm value, potentially due to increased stock liquidity. This finding could serve as an indication to lawmakers that the REIT ownership regulations not only work in theory but in practice, too.

## Originality/value

For the first time in an academic context, the relationship of European REIT ownership structures and firm value is studied in-depth. Proven scientific methods are employed to discern potential, yet unrevealed patterns between REIT ownership and firm value.

## Keywords

Real estate

Investments

Trusts

Real estate ownership

## Citation

Niskanen, J., Rouhento, J. and Falkenbach, H. (2011), "European real estate equities: ownership structure and value of the firm", [Journal of European Real Estate Research](#), Vol. 4 No. 2, pp. 131-144.

<https://doi.org/10.1108/17539261111157307>

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Publisher: Emerald Group Publishing Limited

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