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# REITs and REOCs and their initial stock market performance: a European perspective

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## Abstract

### Purpose

The purpose of this study is to examine the differences between initial public offering (IPO) pricing in the real estate sector and to provide insight into how real estate investment trust (REIT) and real estate operating company (REOC) IPOs perform in a comparative framework.

### Design/methodology/approach

The sample consists of 107 European REIT and REOC IPOs from nine European countries over the period 2000-2015. The initial returns are examined by creating subsamples based on the two business forms, countries and specific timeframes (before, during and after the global financial crisis). A multiple regression analysis is applied to identify the ex-ante uncertainty factors, IPO and firm characteristics, which may impact on the different underpricing levels of REITs and REOCs.

### Findings

European property companies are on average significantly underpriced by 4.63 per cent. The results also reveal that REITs provide a significantly lower underpricing of 2.02 per cent than REOCs, with a positive initial return of 5.69 per cent. The causal treatment effect of the legal form of the company and the underpricing is confirmed by propensity score matching. Among the most influential factors for a lower REIT underpricing, besides the REIT-status itself, are the volatility, offer size and market phase of the IPO. During



This is the first study investigating differences in the underpricing level of REITs and REOCs in a European setting, including the GFC as an extraordinary market phase. The authors provide evidence that REIT IPOs compared to REOC IPOs “leave less money on the table”.

## Keywords

- Pan-European study
- Underpricing
- European REITs and REOCs
- Initial return
- Pricing differences

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