Journal of Property Research ›

Volume 32, 2015 - Issue 3

Papers

What affects the discount to net asset value in the UK-listed property companies?

Qiulin Ke

Pages 240-257 | Received 14 Dec 2014, Accepted 22 Apr 2015, Published online: 26 May 2015

Cite this article https://doi.org/10.1080/09599916.2015.1045542 Check for updates

Abstract

This paper investigates empirically the factors that have affected the discount to net asset value (NAV) in the UK-listed property companies between 2005 and 2013. The prime focus has been on the impact of corporate governance mechanisms. The test results show significantly positive relations of the discount to NAV with firm-specific characteristics such as debt-to-asset ratio, tax and risk, but negative relations with firm size and stock return. Companies with a focused investment strategy have a lower level of discount, while those with an international property portfolio have a higher discount. Market sentiment and property share liquidity also have a significant impact on the discount. It was found that board independence can reduce the level of discount to NAV. The level of insider ownership has a positive relation with discount, indicating the existence of the entrenchment effect. The firm with higher level of insider ownership is usually small and less liquid, thus has higher level of discount.

Keywords:

discount

net asset value

UK-listed property company

corporate governance

Disclosure statement

No potential conflict of interest was reported by the author.

Notes

1. NAV per share is EPRA NAV taken from company reports. No adjustments have been made. When not available, the NAV per share has been calculated as: (total assets − total liabilities)/number of shares outstanding.

2. Capital gains tax is not applicable to the companies that converted into REIT status since January 2007. For the property companies with REIT status, the gains from selling UK properties are exempt from tax, provided they are not held for trading or sold in the three years after completion of development. The non-REIT companies may be eligible for rollover tax relief if they buy the new assets within three years of selling the old ones and delay tax payment until they sell the new asset.

3. Since not all the companies in the sample disclosed such information as the percentage of total portfolio invested internationally in the annual report, the dummy variable was used here, so that the number of companies included wouldn’t drop off.

4. We replace return with the compound growth rate of previous three years NAV as reputation, entrepreneurship and managerial skill of a company in the tests, the results are broadly the same, but not reported here.

5. We replace ask–bid spread with three months transaction volume scaled by total number of shares outstanding as proxy of liquidity, the results are by and large the same, but not reported here.

Related Research Data

Does Focus Really Matter? Specialized vs. Diversified REITs

Source: The Journal of Real Estate Finance and Economics

Corporate Focus and Stock Performance International Evidence from Listed Property Markets

Source: The Journal of Real Estate Finance and Economics

Transparency, Integration, and the Cost of International Real Estate Investments

Source: The Journal of Real Estate Finance and Economics

Investor Sentiment and the Closed-End Fund Puzzle

Source: The Journal of Finance

How Important is the Board of Directors to REIT Performance?

Source: Journal of Real Estate Portfolio Management

Board of Director Monitoring and Firm Value in REITs

Source: Journal of Real Estate Research

Investment Opportunity Set and Voluntary Disclosure of Prospective Information: A Simultaneous Equations Approach