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

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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

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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.

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