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Pricing of IPOs: The Unique Case of Turkish REITs

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ABSTRACT

Our paper builds on the unique legal and institutional details about Turkish REITs, as elaborated in Erol and Tirtiroğlu (2011), and the macroeconomic conditions of Turkey and then studies their initial public offerings between 1996 and 2014. Turkey exhibits substantial macroeconomic uncertainty early on. It abates quite visibly, even during the Global Financial Crisis, since mid- 2000s. We collect manually data and document empirically underpricing in the late 1990s and then a remarkable reversal from underpricing to fair or overpricing in the late 2010s. These results are consistent with our conjecture of the temporally changing influence of noise in real estate asset valuations and macroeconomic conditions and differ substantially from those for the non-REIT sectors in Turkey and for the REITs of other countries. Also, we develop new hypotheses that examine the complex dynamics among concentrated ownership, corporate tax exemption without any legallybinding dividend payment restraints, and absence of a lock-up period in IPOs. Data constraints disallow us from testing these hypotheses at this point in time.

KEYWORDS IPO Underpricing; Real Estate Investment Trusts; Concentrated Ownership

JEL G10, G11, G12