Strategic Transactions Around REIT Conversions?

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May 8, 2020

Abstract

This paper examines the conversion-related M&A activity and the post-conversion performance of 80 Real Estate Operating Companies (REOCs) adopting the Real Estate Investment Trust (REIT) status. We observe a distinct, higher M&A activity in the years around the conversion dates and relatively high premiums in conversion-related deals. The REIT format attracts equity inflows from investors, which explains increased post-conversion M&A activity. Overall, converted REITs realize positive excess returns. Lower (higher) M&A activity before the conversion translates to superior absolute (risk-adjusted) post-conversion performance indicating benefits from strategic company realignment.

Keywords: Mergers and Acquisitions, REITs, REIT Conversions

JEL: G34, R30

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1 Introduction

Real Estate Operating Companies (REOCs) and Real Estate Investment Trusts (REITs) regularly engage in strategic transactions in the form of mergers and acquisitions.¹ However, the existing M&A research in the REIT sector only focuses established REITs and, so far, lacks an explicit indepth analysis of the deal environment accompanying the (REOC to) REIT conversion processes. Despite increasing research interest in REIT conversions (Ling et al., 2020) and the market entry of REITs (Chan et al., 2019), the related restructuring process is not yet subject to scientific inquiries.

In the present study, we investigate the conversion-related M&A activities. First, we categorize deal types as well as the role of the respective REIT in the observed deals and provide a distinct view on internal and external reorganization activities. Second, we identify the determinants driving the pursued transactions. Third, we examine whether REITs are willing to pay a substantial premium to achieve the desired portfolio allocation and we assess the M&A-related long-term performance of companies that adopted the REIT status.

The advantage of this work is the possibility to understand strategic decision making under one common goal, to prepare for the REIT market. By focusing on established Real Estate Operating Companies which decide to convert, we are able to characterize the realignments of the companies and to track their evolution in terms of both, assets and capital structures, caused by the increased attractiveness to equity investors.

We gather a unique, in part, hand-collected dataset to examine the M&A environment of REIT conversions at a global level. The global setting allows us to discover differences and commonalities in the post-conversion performance across countries. Our dataset comprises conversions of listed real estate companies across nine large markets for the period 1999 to 2018. All firms are index constituents of the FTSE EPRA/NAREIT Global Real Estate Index.

¹Glascock et al. (2018) provide a comprehensive review thereunto. Following Mulherin and Womack (2015) the terms "mergers", "acquisitions", and "takeovers", as well as "target", and "seller" are used interchangeably in this article.

We observe remarkably many strategic transactions taking place among the converting entities around their respective electing date (Figure 1). Particularly, we observe an increase in the conducted number of M&A transactions in the period where the conversions take place that is dissociated from the general M&A environment in the industry. We also observe a sharp increase in average deal size after conversions, which, alike the number of post-conversion deals, can be explained by the inflows resulting from the adoption of the REIT structure. Studies in the corporate finance literature show that regulatory shocks, usually changes in the prevailing antitrust regimes, cause waves of acquisitions (e.g. Harford, 2005, Martynova and Renneboog, 2008). Since many REIT conversions take place in close proximity to the introduction of a REIT regime, we discover an M&A inducing regulatory shock which is both unique to the real estate sector and new to the literature.

Restructuring activity interacts with long-term performance. Converted REITs of the largest REIT markets are associated with positive post-conversion returns. Firms with the lowest levels of restructuring outperform the entities with higher pre-conversion restructuring activity. Although, higher transaction activities in turn lead to beneficial risk-adjusted returns.

Those unprecedented insights on the M&A environment of REIT conversions are of enduring interest for market protagonists: investors and REIT executives need to understand how restructuring relates to conversions and how restructuring around conversions interacts with post-conversion performance. Enhanced knowledge on the firm-level process of adopting the REIT form and on the market-consolidation effects of REIT regimes is also advantageous for governments and tax authorities, which create and enforce the respective legal framework.

The remainder of the article is organized as follows: the second chapter provides a brief review of related literature and develops our research hypotheses. Chapter three introduces the data. Chapter four focuses the conversion-related M&A activity. Chapter five analyzes the post-conversion performance. The final section entails our conclusions.

2 Related Literature and Hypotheses

Testable implications of the M&A activity along REIT conversions build up on the general finance and real estate literature. Research on strategic transactions in the property sector predominantly focuses on established REITs. It lacks an analysis of the deal environment accompanying the conversion processes. In particular, the entire restructuring process and its interaction with postconversion performance is not yet subject to any scientific inquiries.

M&A deals in the property sector are more homogeneous than in other branches. However, not for every transaction it is evident which particular purpose or rationale underlies the decision making. In context of REIT conversions, real estate operating companies pursue an organizational form change towards the REIT form which implies a defined goal. Given the companies' geographic domiciles, the respective national REIT legislation demands the fulfillment of certain criteria to elect the REIT status. The most relevant criterion for our analysis requires REITs to hold a specific level of qualifying real estate assets.² If a firm is closer to this legal requirement, its related restructuring expenses should be *ceteris paribus* lower. Therefore, REOCs are subject to potential restructuring on the company level affecting the asset allocation.

Property companies attempting to achieve the REIT status are obliged to fulfill the national criteria. Moreover, Freybote and Qian (2015) document REIT mergers are strongly incentivized by acquiring strategically relevant properties for managers. Similar to evidence for IPOs in Malmendier and Tate (2008), REOCs may use the opportunity of a REIT conversion to signal the ability to form higher-quality portfolios. In general, M&A deals of REITs entail deal premiums (cumulative abnormal returns) which are on average lower than 10%. For instance, Sahin (2005) and Womack (2012) report premiums of about 5%, Ling and Petrova (2011) of about 7% and Campbell et al. (2001) between 1% and 3%. In the case of regulatory incentivized transactions or strategic restructuring, converting REOCs are likely willing to purchase a certain portfolio to a larger amount above

²This refers to the criterion Asset Test, which is defined as the proportion of qualifying real estate to overall assets. This ratio needs to exceed a nationally defined threshold, for instance, 75% in the UK. In addition, they need to generate a large share of overall income out of it and need to payout at least 70% of their profits to shareholders. Most countries include leverage and blockholding limits, which restrict debt financing and ensure a minimum free-float. EPRA (2018) lists the most recent regime requirements for REITs. Note that those criteria may change over time.

its market value. Taking those aspects together, we formulate our first pair of hypotheses as follows:

Hypothesis 1: M&A Rationale

Hypothesis 1a: Deals are conducted to meet the REIT criterion Asset Test.

and

Hypothesis 1b: Converting REOCs are willing to pay a premium to acquire the desired portfolio allocation.

Gyourko and Sinai (1999) document net benefits (tax savings over capital rising costs) of the U.S. REIT structure. To date, over 30 countries have already introduced REIT regimes to facilitate capital flows to the real estate sector (Eichholtz and Kok, 2007). In addition, REITs are increasingly used by investors seeking real estate exposure (Downs et al., 2019). Adopting the status is regularly rewarded by a positive market valuation. For instance, studies of Damodaran et al. (2005), Piao et al. (2017) Ling et al. (2020) find positive announcement effects of signaling a REIT conversion.

The prevailing literary evidence suggests the REIT framework to be associated with higher inflows. Higher inflows may in turn lead to more M&A activity and larger relative deal size, i.e. relative to the companies average deal size.³ Putting those aspects together, we formulate our second hypothesis as follows:

Hypothesis 2: The conversion-induced increasing inflows raise the number of deals and the excess deal size.

Contributions analyzing mergers and acquisitions of real estate firms are numerous but mainly focus the returns around takeover events and the pre- and post merger performance of targets and acquirers in the (U.S.) REIT sector. Studies on the long-run post acquisition performance of REIT acquirers, find no resilient evidence for positive effects on REIT performance, as in Sahin (2005) and Ratcliffe et al. (2018), or even a substantial negative impact of acquisitions on acquirers' returns

 $^{{}^{3}}Average Deal Size_{i,t} = Aggregate Deal Size_{i,t} / Number of Deals_{i,t}.$

during the years after an acquisition as described in Campbell et al. (2009). Thus, if the conversion process is accompanied by an increased number of acquisitions, together with the findings on long-lasting adverse performance of acquirers in takeovers of REITs, we presume that on average:

Hypothesis 3: Performance Implications

Hypothesis 3a: Converted REITs show relatively high performance in the post-conversion periods.

and

Hypothesis 3b: Higher M&A activity implies lower long-term performance for converting REITs.

3 Data and Descriptive Statistics

Our empirical analysis is based on constituents of the FTSE EPRA / NAREIT Global Real Estate Index, which comprises listed firms with relevant real estate activities.⁴ The observation period ranges from the index' introduction in 1999 to 2018. The constituent list is updated on a monthly basis and is not subject to survivorship bias. By focusing on index firms, we ensure a high degree of data quality and comparability at the multinational level.

We only include index constituents from countries which exhibit REIT regimes. For those RE-OCs we identify conversion events by tracking both, the year of listing and the year of electing the REIT status. Those dates are partly collected via S&P Global Intelligence database, via CRSP share code changes for U.S. firms and, to a significant share, hand-collected from company reports. We include firms with at least 24 months of listing to exclude entities which pursued the conversion right from their formation.⁵ Countries in which no conversions occur disqualify for the purposes of this analysis which leaves us with 90 conversion events.

⁴The index provider defines relevant real estate activities as the ownership, trading and development of incomeproducing real estate (Russell, 2019).

⁵Our analysis confirms that sample companies remain stable from 12 months upwards. In line with Ooi et al. (2007), we require 24 months of listing to analyze the conversion process of sample REITs from an equilibrium initial position.

We obtain data on the existence and the nature of deals for a total of 80 converted REITs from nine countries via the Securities Data Company (SDC) Mergers and Acquisitions database. Table 1 provides an overview. The entire observation period, ± 5 years around the event, allows to track M&A activities in common business cycles, during the restructuring time (two years prior the conversion date) and during the post-conversion era.⁶ We observe asset deals, where parts of the assets, the majority of assets or the entire assets of the respective party change hands and share deals i.e. the acquisitions of partial and remaining interest, of 100% of stocks and mergers. This yields a total amount of 1,093 transactions where a sample REIT is either involved on the acquirer or target side.

Within the eleven years time span, we observe a substantial increase in deal activity for the years where the REIT conversion takes place. The average number of deals settled by the observed entities in the years of the conversions is about two times as large as during the preceding years. This is accompanied by an increase in total deal volume. The average deal volume reaches its high point four years after a conversion has taken place (Figure 1), which is disassociated from the evolution of the overall M&A market in the respective economies.

Table 2 reports the number of deals in each period along deal types and along the role of the sample REIT in the respective deal. The acquisition of shares is prevalent (56% of deals). In 55% of the observed transactions, a sample REIT directly acquires the assets or shares of another entity. Only a small fraction of deals (3.7%) conducted by 25 sample firms can be characterized as internal restructuring activities. Internal restructuring hereby refers to a situation where the sample REIT is simultaneously engaged on the acquirer- and target side of a deal, which happens reciprocally direct or as parent of the respective deal-party. Highest prevalence among internal deals exhibit acquisitions from immediate subsidiaries (Table 3).

⁶Two years is the average time span from the announcement of the plan to become a REIT to the actual conversion, e.g. documented in Carlock and Wilkin (2018).

4 Conversion-Related M&A Activity

4.1 Strategic Restructuring

The number of deals is used to characterize the sample REITs' levels of restructuring activity (Table 4). A comparison of typical M&A-related firm level variables for high and low restructuring entities two years prior to the conversion reported in Table 5 does not show substantial ex-ante divergence. 49 firms already hold an adequate qualified real estate portfolio from the regulatory perspective. The remainder of sample firms are sufficiently close to (on average 0.2% below) the necessary benchmark ratio.

We empirically analyze the impact of the regulatory requirement on the decision to reallocate the property portfolio, particularly the asset test. Our analysis focuses two directions. For this reason, we employ a poisson estimation on the number of deals and a linear panel regression on the relative deal size. Results are reported in Table 6. Controlling for firm-level characteristics, we find no significant impact of the asset test requirements on either of the two variables in any considered model specification. In contrast to the presumption of Hypothesis 1a, we conclude the M&A deals are not subject to meet the asset test. Consequently, the desire to form high-quality property portfolios in advance of the conversion may drive M&A activity and deal volumes i.e. transactions in advance of conversions can be perceived as strategic.

What is the instantaneous return on those deals? To answer this question, we extract information on premiums following the common event-study approach. A fraction of 37 deals qualifies for this part of our analysis. Those deals are acquisitions of public targets with sufficiently high market liquidity. For the sub-sample of M&A deals, we derive cumulative abnormal returns (CARs) using an estimation period of 120 to 20 days before the deal announcement and a symmetric event window of ± 5 days. Predicted returns are estimated using the market model. We find a high premium of approximately 9.1%, compared to prior results for returns on targets in acquisitions by REITs in the literature (surveyed by Glascock et al., 2018).⁷ This indicates a relatively high willingness to pay for the REITs from the excerpt of our converted REITs M&A sample. The internal differ-

⁷Varying the event window, we find 8.3% for a window ± 2 days.

entiation between deals before and after obtaining the REIT status reveals premiums that are on average larger for deals in the pre-conversion era (10.3% to 8.1%). Based on these findings one can conclude that the restructuring process entails transactions which are carried out to build-up an attractive portfolio and which are relatively expensive. Consistent with Hypothesis 1b REITs pay higher prices to achieve this goal which means that converting REOCs accept a short-term return compression. Section 5 shows when this pays-off in the long-run.

4.2 Conversion-induced Deals

The observation of a remarkable increase in both absolute and average deal size in the four subsequent years after conversions motivates an in-depth analysis of those deals. Figure 2 shows the average number of outstanding shares in a five year horizon around the REIT-conversion dates and depicts how the level of equity simultaneously rises during this time-period. The persistently increasing outstanding shares reflect the possibility to issue and place more shares. As we observe deals in relative time around the conversion dates over nine countries, we conclude that equity issuance is not driven by market dynamics.

The subsequent part of our inferential analysis tests the effect of increasing inflows on M&A activity and deal size for the set of acquirers (acquirer subsample in Table 4). We proxy inflows by changes in equity and use the number of shares (corrected for stock splits) to capture the entire picture of all equity affecting issues like SEOs, ATMs, stock repurchases as proposed in Harrison et al. (2011). We perform a Poisson regression to test the influence of inflows on the higher number of transactions. We employ two-step estimation techniques to disentangle the possible effect of the REIT status on inflows. Therefore, we use the REIT status and firm-specific characteristics to estimate inflows in a first stage. We define an indicator variable equaling one if the company operates as a REIT in period t, otherwise zero. The change in these linearly predicted inflows serves as key explanatory variable for the number of transactions. Equation 1 represents the second stage of our model.

Number of $Deals_{(i,t)} = \alpha$

$$+ \beta_{1} Inflows_{i,t} + \beta_{2} Inflows_{i,t-1}$$

$$+ \sum_{k=1}^{K} \gamma_{k} Firm\text{-level control}_{k,i,t}$$

$$+ \sum_{c=1}^{C-1} \delta_{c} D_{c,i} + \epsilon_{i,t}$$

$$(1)$$

Number of $Deals_{i,t}$ is the number of completed transactions of company *i* in period *t*. Inflows_{*i*,t} reflects the difference in each company's logarithmized number of shares between period *t* and *t*-1. Firm-level controls are explanatory variables homogeneously and frequently documented in the general and REIT M&A literature. We control for country-specific effects (country-dummy $D_{c,i}$) to account for time-invariant heterogeneity in different REIT markets (e.g. Dogan et al., 2019). In addition, we estimate the effect of inflows on the excess deal size which is defined as the percentage deviation from the average deal size of each company by a linear panel regression.

Next, we want to explain how the number of M&A deals relates to the inflows triggered by REIT conversions. Table 7 shows the results of our corresponding set of estimations. The first column refers to the first stage estimation identifying the REIT status as highly statistically significant contributor to inflows, besides certain firm characteristics. The REIT status induces c.p. on average approximately 13% higher yearly inflows. The second stage reveals a significant positive influence of predicted inflows on deal activity, at the 5% level for contemporaneous and at the 10% level for one period lagged inflows, respectively. Since we observe inflows on an annual frequency, contemporaneous inflows are as reasonable as the inflows occurring during the preceding year. The results in Table 8 corroborate the findings with a statistically significant combined effect of inflows. Increased inflows also explain the observed increase in the excess deal size (above average) which is characteristic for the post-conversion period. As it is shown in the last column of Table 7, the increase in the REITs' equity leads them to conduct more voluminous deals. On average, the excess deal size increases by 0.6 percentage points for each percentage point increase in net inflows. Altogether, the results are consistent with Hypothesis 2.

5 Post-Conversion Performance

Lastly, we investigate the long-term post conversion performance for REITs with different levels of conversion-related restructuring activities via a buy-and-hold abnormal return (BHAR) approach. Portfolios are formed from the lowest to the highest M&A-activity quartile according to the number of conducted deals during the two years period before the conversion date (Table 4). We track the performance of converted REITs over a three, four and five years time span after the conversion date. In addition, we compute the Sharpe (1966) ratios for those periods to capture the riskadjusted performance with respect to the individual trading activity.

We calculate BHARs in accordance with Barber and Lyon (1997) and Lyon et al. (1999) where the BHAR of REIT i is:

$$BHAR_i = \prod_{t=1}^{T} (1 + r_{i,t}) - \prod_{t=1}^{T} (1 + r_{PF,t})$$
(2)

 $r_{i,t}$ is the individual daily total return of company *i* at day *t*. $r_{PF,t}$ represents the total return of each country's EPRA real estate index. Similar to preceding BHAR analyzes of REITs by Sahin (2005), Campbell et al. (2009) and Ratcliffe et al. (2018), the benchmark portfolio reflects an eligible peer group of the respective REIT market.

The results of the BHAR analysis in Table 9 show significant positive abnormal returns for converting REOCs in the three countries with the largest amount of conversions - United Kingdom, United States and South Africa. This indicates the realization of the attempted advantages by the change of the legal organizational form. The results are supportive of Hypothesis 3a. The findings on positive BHARs are in line with evidences of Damodaran et al. (2005) and Piao et al. (2017) but in contrast to Sahin (2005), Campbell et al. (2009) or Ratcliffe et al. (2018) who do not find positive excess returns in M&As of established REITs.

Building up on the positive buy-and-hold abnormal returns, we form three bi-national converted-REIT portfolios for the two largest developed REIT markets in the sample, USA and UK, according to the firms' trading activity. Table 4 reports that 26 firms of the lower quartile conduct up to five deals during the observation window while the 18 most active firms perform up to 78 deals during that time span. The high (low) group comprises the firms in the upper (lower) quartile of trading activity, while the medium group captures the 50% of firms with moderate pre-conversion M&A activity.

As displayed in Table 10, despite their overall positive post-conversion performance, the entities with high levels of restructuring under-perform relative to converted REITs with low M&A engagement in terms of BHARs, persistently over the three considered time horizons. This may imply, that the benefits from conversions are in parts offset by the costs of conducting the strategic transactions. The finding can be explained by neutral or negative post-acquisition performances to acquirers documented in the REIT and general finance literature, e.g. Glascock et al. (2018) or Betton et al. (2008) and corroborates Hypothesis 3b.

Computing excess returns over a portfolio means comparing returns of single assets with the return of a set of assets, where holding the latter will most likely entail lower risk for the investor. Part of the excess returns may thus simply represent the related risk premium. One key benefit from M&A activity may be the composition of an adequately diversified property portfolio in advance of the REIT conversion.⁸ Therefore, in the next step, long-run excess returns are derived using the Sharpe (1966) Ratio that accounts for the return volatility of the asset and the benchmark portfolio, respectively. From the results for risk-adjusted returns in Table 10 we can conclude that, opposed to the simple buy-and-hold strategy, the considerable difference between high and low restructuring entities is not apparent any longer. This implies that investors who benefit from the advantageous

⁸For established U.S. REITs, Huerta-Sanchez et al. (2020) find no significant differences in market returns regarding the type of acquisition (asset vs. share deals).

performance of low restructuring firms will have to accept a higher risk. Simultaneously, the results show that high restructuring REITs still generate positive abnormal post-conversion performance, which, due to the lower raw BHAR, indicates a reduced risk associated with investments in those firms. Together, it reveals a strategic advantage of high restructuring REITs and is eligible to explain the decision to conduct a multiple of M&A transactions preceding the adoption of the REIT status.

6 Conclusion

This article examines the M&A activity related to REOC-to-REIT conversions on a multinational level. Drawing on an unique dataset of internationally listed FTSE EPRA/NAREIT property companies over the 1999 to 2018 period, we analyze 80 companies electing the REIT status and reveal a couple of interesting insights:

First, REIT conversions induce an increasing amount of M&A activity which, in turn, dissects to a significant share of restructuring deals in proximate relationship to the conversion date, and large-volume deals in the subsequent four years after the conversion. REOCs are willing to pay a premium of approximately 9.2% above the market valuation to acquire the desired portfolio in terms of strategic – not regulatory – realignment. Second, adopting the REIT status enhances equity inflows driving post-conversion M&A transaction activities and volumes. Third, converters in established REIT markets outperform their peers over the long-run. Converters with lower restructuring activity exhibit a even higher performance and REOCs that undergo high restructuring show beneficial risk-adjusted returns.

Together, the results indicate that converting REITs carry out substantial restructuring effort in the pre-conversion period. Afterwards, they are able to follow a rapid growth-path through largescale reinvestment of the inflows attracted by the REIT status and exhibit a better performance, compared to their peers.

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Figure 1: Number of Sample Deals and (Average) Deal Size Around Conversion Dates

Note: This figure shows the aggregate number of deals (bars) and the corresponding deal values (lines) within the window -5 to 5 years around the conversion date. The left (right) graph gives the overall (average) deal value.





Note: This figure shows the average number of outstanding shares for all sample companies within the window -5 to 5 years around the conversion date.

Country	All REITs	Converted REITs	Sample
Belgium	9	3	3
Canada	37	10	10
France	16	12	11
Germany	3	1	0
Italy	3	3	3
Netherlands	8	3	2
S. Africa	20	14	13
Spain	4	2	2
UK	39	24	21
USA	222	18	15
Total	361	90	80

Table 1: Number of (Converted) REITs Across Countries

Note: This Table characterizes the multinational REIT conversion sample. The second column shows the overall number of historical and actual REIT constituents of the FTSE EPRA/NAREIT Global Real Estate Index. Thereof, the third column reports the identified converted REITs. The last column gives the number of converted REITs with available M&A data.

	Deal Type		Role of the REIT			
Years to Conversion	Asset Deals	Share Deals	Acquirer	Acquirer Parent	Target	Target Parent
-5	27	33	40	2	4	10
-4	32	40	50	2	2	13
-3	29	40	44	5	2	11
-2	35	57	41	15	5	24
-1	39	52	42	16	3	22
0	57	87	78	16	3	35
1	62	83	75	16	6	40
2	56	68	69	13	7	28
3	44	58	58	4	4	22
4	47	47	53	11	1	23
5	55	45	49	11	2	27
Total	483	610	599	111	39	255

Table 2: Number of Sample Deals per Deal Type

Note: This Table reports the number of deals within the window -5 to 5 years around the conversion date. Deals are classified as asset deals where parts of the assets, the majority of assets or the entire assets of the respective party change hands and share deals i.e. the acquisitions of partial and remaining interest, of 100% of stocks and mergers (columns 2–3). The role of the sample REIT (columns 4–7) is either acquirer, acquirer parent, target or target parent.

Table 3: Number of Internal Sample Deals

Deal Description	Number of Firms
REIT buys from subsidiary	34
REIT buys from parent	2
REIT sells to parent	1
REIT buys from subsidiary of subsidiary	3
Total	40

Note: This Table shows the deals within concerns. The first column refers to the role of the sample REIT in the deal, while the second lists the aggregate number of deals.

	Full Sample		Acquirer Subsample	
Quantile	# Deals	# Firms	# Deals	# Firms
0.25	5	26	2	25
0.5	29	36	10	36
1	78	18	31	19

Table 4: Distribution of Sample Deals and Firms acrossQuartiles

Note: This Table shows the overall number of deals and the number of deals in which the sample REIT appears as an acquirer. Sample REITs are grouped to pre-conversion (two years) M&A activity quartiles. The number of deals reflect the thresholds of each quartile, e.g. the first line (25% quartile) displays 26 firms conducting 5 or less deals in the full sample. Middle quartiles are given as aggregate.

	Low	High	High-Low
Leverage	0.497	0.395	-0.102
M/B Ratio	1.683	1.938	0.255
Asset Test	11.905	-0.195	-12.100
Age	13.738	20.629	6.891
Market Cap	601.092	1695.208	1094.117
Total Debt	608.785	1615.682	1006.897
Total Assets	1189.059	3650.925	2461.866

Table 5: Two-Sample t-Test for High and LowRestructuring Quartiles

Note: This Table displays arithmetic means of typical M&A-related firm characteristics according to the upper and lower trading activity quartiles for the United Kingdom and the United States two years before the individual conversion takes place. The last column reports the difference between the quartiles. ***,** and * indicates significance at the 1%, 5% and 10% level, respectively.

	Deal N	lumber	Relative	Deal Size
	i	ii	i	ii
Key Variable				
Asset Test Criterion	-0.006 (0.008)	-0.010 (0.007)	-0.002 (0.002)	-0.002 (0.002)
Control Variables				
Cash	$\begin{array}{c} 4.616^{***} \\ (1.227) \end{array}$	5.264^{***} (1.394)	1.017^{**} (0.406)	0.715^{**} (0.284)
Leverage	0.075^{**} (0.035)	0.075^{**} (0.037)	0.017^{**} (0.008)	0.010^{*} (0.006)
Leverage Squared	-0.001** (0.000)	-0.001** (0.000)	-0.000^{**} (0.000)	-0.000 (0.000)
Return on Assets	-6.263^{*} (3.772)	-3.055 (4.710)	2.597 (2.166)	$2.018 \\ (1.815)$
M/B Ratio	0.009^{***} (0.003)	$\begin{array}{c} 0.013^{***} \\ (0.005) \end{array}$	$0.000 \\ (0.000)$	$0.000 \\ (0.000)$
Dividend Yield	$\begin{array}{c} 0.015 \\ (0.044) \end{array}$	$\begin{array}{c} 0.037 \\ (0.053) \end{array}$	$\begin{array}{c} 0.010 \\ (0.014) \end{array}$	$\begin{array}{c} 0.019 \\ (0.016) \end{array}$
Size	-0.061 (0.116)	$\begin{array}{c} 0.174 \\ (0.145) \end{array}$	-0.044^{**} (0.020)	$\begin{array}{c} 0.020 \\ (0.036) \end{array}$
Age	0.031^{***} (0.012)	$\begin{array}{c} 0.019 \\ (0.015) \end{array}$	$\begin{array}{c} 0.002 \\ (0.002) \end{array}$	-0.003 (0.004)
Constant	-1.668 (2.332)	-4.548^{*} (2.655)	$\begin{array}{c} 0.233 \ (0.436) \end{array}$	-0.527 (0.642)
Country FE Observations Adj. / Pseudo R ²	No 235 0.1136	Yes 235 0.1514	No 120 0.1161	Yes 120 0.1589

Table 6: Regression Results for the Impact of the AssetCriterion

Note: This table shows the poisson and linear panel regressions results on the Number of Deals and Relative Deal Sizes within the window -5 to 1 years around the conversion date. The unit of observation is the Deal Number (column 1,2) and the Relative Deal Size (column 3,4) respectively. Models *i* lag all explanatory variables by one period. Models *ii* use country fixed effects additionally. We use robust standard errors, which are given in parentheses. ***,** and * indicates significance at the 1%, 5% and 10% level, respectively.

	Inflow	Deal Number	Excess Deal Size
Key Variables			
REIT status	$\begin{array}{c} 0.130^{***} \\ (0.032) \end{array}$		
Inflows		0.662^{**} (0.299)	0.648^{**} (0.314)
L1 Inflows		0.858^{*} (0.447)	-0.056 (0.222)
Control Variables			
Cash	-0.180 (0.172)	2.053^{*} (1.169)	-0.299 (0.760)
Return on Assets	$\begin{array}{c} 0.899 \\ (0.561) \end{array}$	-7.378^{**} (2.980)	-5.958 (6.137)
M/B Ratio	-0.001 (0.001)	$\begin{array}{c} 0.001 \\ (0.003) \end{array}$	-0.009 (0.025)
Dividend Yield	0.010^{**} (0.005)	$\begin{array}{c} 0.012 \\ (0.022) \end{array}$	-0.058 (0.035)
Size	$\begin{array}{c} 0.447^{***} \\ (0.028) \end{array}$	0.390^{***} (0.085)	(0.087) (0.222)
Age	-0.010 (0.009)	-0.019 (0.013)	-
Leverage	-0.000 (0.001)	$0.030 \\ (0.019)$	$0.038 \\ (0.027)$
$Leverage^2$		-0.000^{**} (0.000)	-0.000 (0.000)
Constant	$\begin{array}{c} 4.988^{***} \\ (0.466) \end{array}$	-8.519^{***} (1.367)	-1.645 (3.076)
Country FE Firm FE Observations Adj. / Pseudo R ²	Yes No 659 0.4783	Yes No 495 0.1524	Yes Yes 225 0.1054

Table 7: Regression Results for Inflows, Number of Dealsand Excess Deal Size

Note: This table shows the results of the two-stage Poisson and linear panel regressions within the window -5 to 5 years around the conversion date. Model *i* represents the first stage explaining inflows (by the REIT status). Model *ii* represents the second stage explaining number of deals. Model *iii* reports the linear panel (FE) regression results explaining excess deal size. We use robust standard errors, which are given in parentheses. ***,** and * indicates significance at the 1%, 5% and 10% level, respectively.

Coef.	Std. Err.	Z	p-value	[95% Conf.	Interval]
1.520	.596	2.55	0.011	0.351	2.689

 Table 8: Combined Effect of Inflows

Note: This table shows the combined effect of contemporaneous and one year lagged inflows on the number of M&A deals around REIT conversions estimated in model *ii*.

	UK	USA	SA	FR	CA
3y	0.073	0.351*	0.564***	-0.111	-0.158
	(0.347)	(0.669)	(0.405)	(0.861)	(0.507)
4y	0.177^{*}	0.644**	0.927***	-0.587	-0.145
	(0.427)	(0.797)	(0.808)	(1.261)	(0.570)
5y	0.263**	0.764***	0.872***	-0.533	-0.120
	(0.446)	(0.786)	(0.784)	(1.889)	(0.652)

 Table 9: Post-Conversion Performance across Countries

Note: This Table shows the abnormal buy-and-hold return (BHAR) for the five countries with the largest amount of conversions. Starting from the conversion date, three relative post-conversion windows of 3, 4 and 5 years are regarded. ***,** and * indicates significance at the 1%, 5% and 10% level, respectively. Standard errors are given in parentheses.

	Simple BHAR				Risk-Adjusted BHAR			
	Low	Medium	High	High-Low	Low	Medium	High	High-Low
3y	0.487^{***} (0.231)	$0.120 \\ (0.663)$	$0.138 \\ (0.506)$	-0.349^{**} (0.141)	$0.187 \\ (0.267)$	$0.162 \\ (0.220)$	0.102^{**} (0.216)	-0.084 (0.111)
4y	$\begin{array}{c} 0.848^{***} \\ (0.457) \end{array}$	0.525^{*} (0.523)	$\begin{array}{c} 0.201 \\ (0.633) \end{array}$	-0.647^{***} (0.234)	$\begin{array}{c} 0.224 \\ (0.302) \end{array}$	$0.164 \\ (0.176)$	0.092^{**} (0.182)	-0.132 (0.130)
5y	0.926^{**} (0.591)	0.611^{*} (0.494)	0.281^{*} (0.612)	-0.645^{**} (0.279)	$\begin{array}{c} 0.230 \\ (0.315) \end{array}$	$\begin{array}{c} 0.145 \ (0.164) \end{array}$	0.103^{**} (0.182)	-0.127 (0.135)

Table 10: Post-Conversion (Risk-Adjusted) Performance by M&A Activity Quartiles

Note: This Table shows simple and risk-adjusted abnormal buy-and-hold returns (BHAR over three relative time horizons for the United Kingdom and the United States. We calculate the risk-adjusted return from the Sharpe (1966) Ratio. Columns 1–3 of both return types present the results according to M&A activity quantiles. The respective fourth column states the difference between the upper and lower quartile. ***,** and * indicates significance at the 1%, 5% and 10% level, respectively. Standard errors are given in parentheses.