

REIT Initial Public Offerings: Evidence on Initial Underpricing and After-Market Performance

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Unlike industrial IPOs, REIT initial public offerings (IPOs) in the 1970s and 1980s were initially overpriced and subsequently underperformed other REIT securities in the 100 days after the initial issuance day. In contrast, the equity REIT IPOs that have come to the market in the 1990s have been underpriced, on average, by 3.6%. Moreover, these recent REIT IPOs have moderately outperformed seasoned REITs in the 100 trading days after issuance. We attribute the initial underpricing of recent REITs to more extensive institutional involvement and greater valuation uncertainty, both of which made these issues more susceptible to the "Winner's curse." Evidence is presented that is consistent with these conjectures.

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