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The Impact of Initial Public Offerings' Characteristics on Real Estate Investment Trusts' Underpricing: The Saudi Context

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ABSTRACT

In recent years, many Real Estate Investment Trusts (REIT) have issued to initial public offerings (IPO) in the Saudi Stock Exchange "Tadawul." Occasionally, trust fund issuers such as REITs may face challenges in selling their shares to the public. One of the challenges related to underpricing is trading the stock on the first day of the market. This study investigates the relationship between REIT characteristics and share underpricing for a sample of REITs that are listed on the Saudi Stock Exchange "Tadawul." The purpose of the study is to focus on one of the challenges that is related to the IPOs of REITs. Using a sample of 17 IPOs of REITs listed on the Saudi Arabian Stock Exchange "Tadawul" for the period between 2016 and 2020, we show significant negative associations between the number of IPO underwriters, number of shares subscribed, and the firms' dividend payouts and REITs' underpricing. The result also shows a significant positive association between the number of subscription days and REITs' underpricing. The research should provide significant implications for regulators and market participants in the light of the public offering and the REIT sector.

KEYWORDS

public offering, financial performance, real estate, investment trusts, stock exchange, Tadawul

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1. Introduction

A new alternative investment was recently released to the public in Saudi Arabia: the Real Estate Investment Trust (REIT). Typically, public fund issuers may face challenges when selling their shares in an initial public offering (IPO). One of the challenges related to underpricing is trading the stock on the first day of the market (Saengchote and Charoenpanich, 2021). As such, many studies focus on understanding IPO characteristics, structure, performance, and pricing. An IPO is considered to be underpriced when the difference between the IPO price and the market's first day closing price is negative .However, IPO underpricing may occur accidentally due to overestimation of the REIT's valuation or lower market demand for the REIT's shares. In this study, we aim to provide a better understanding of the state of REIT IPOs in Saudi Arabia. Specifically, we investigate the relationship between REIT characteristics and underpricing by focusing on REITs in Saudi Arabia.

REITs, or real estate investment trusts, are mutual funds that own or finance income-producing real estate across various property sectors. These real estate funds have to meet several requirements to qualify as REITs. Most REITs trade on major stock exchanges and offer several benefits to investors. For instance, the pay-out ratios of REITs are at least 90% of their taxable income (Dogan *et al.*, 2019). Also, REITs operate according to a straightforward and easily understandable business model by leasing space and collecting rent on the ownership of the real estate. This allows them to pay out dividends to their shareholders.

The research employs a sample of all REITs traded in Saudi Arabia and has produced a number of important findings. First, using a sample consisting of REITs that were underpriced in the first week, we have found significant negative impacts on underpricing between the number of IPO underwriters, number of shares subscribed, and the firms' dividend payouts. Second, the result also shows a significant positive association between the number of subscription days and underpricing. IPOs have been used as a way for companies to raise capital from public investors through the issuance of public share ownership; thus, this research highlights an important issue that REITs funds may face.

This paper contributes to the previous literature in several ways. First, it contributes to the IPO underpricing literature (Lee and Wahal, 2004) by studying a special fund category (REITs). Second, to the best of our knowledge, it is the first study to investigate the effect of mutual fund REIT characteristics on IPO underpricing. Additionally, we focus our study on Saudi Arabia, which is considered an emerging market with special characteristics (such as the country's reliance on oil for government revenue). This research provides multiple implications for market participants, managers, and regulators. For instance, REITs provide an alternative investment opportunity for market participants who expect to generate a periodic return on their investment. It also provides an option for investors who cannot afford to buy properties or make real estate investments due to high property costs. As such, REITs provide investors with a way to invest in real estate. REIT management also occasionally resorts to underpricing the IPO in order to encourage investment and save its position in the stock market. Listed REITs are professionally managed, publicly traded companies that manage their businesses with the goal of maximizing shareholder value. This means that REITs have to position their properties to attract tenants and earn rental income by managing their property portfolios and buying/selling their assets. This should have great implications for regulators and market participants and better prospects in the light of the public offering.

2. Background

The investment provides good returns and helps individuals increase their wealth, which will, in turn help them fulfill their financial goals. It also allows individuals to grow their wealth while generating inflation-beating returns.

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2.1. IPO:

"Initial public offering" (IPO) refers to the process of offering shares of ownership to the public through the sale of the company's shares. This allows REIT managers to raise capital when it's needed to cover their plans of expansion and growth. It also allows the REIT's initial stockholders to sell their stocks to the public. By doing so, the IPO provides an opportunity for investors to earn significant returns on their investments. An IPO can also help REITs to receive publicity and visibility in the market and may help the company in securing better terms from their lender or in meeting the latter's demands. Meanwhile, buying the shares of an IPO company provides investors with an opportunity to invest and allows them to maximize their wealth (Ascherl and Schaefers, 2018).

When contemplating participation in the public offering, each institution focuses on defining its working mechanisms and its criteria in order to determine the persons or business entities who will receive the allocation of shares and their performance (Erol *et al.*, 2020). By the conditions of allocating shares to investors in the public offering, the clients who wish to participate in it are evaluated and ranked based on their assets and revenues. The process of allocating the shares of institutional investors for public subscription works to generate new mechanisms in the market. Within this scope, the nature of the allocation of shares to institutional investors will be addressed with reference to the state of the Saudi stock market and the most important tracks by IPOs (Saengchote and Charoenpanich, 2021).

Meanwhile, the IPO may be the unique option for a business to expand or raise capital, which can provide multiple benefits to the REIT's managers. The IPO may bring the REIT into a risky position, as it will bear more expenses upon issuance, such as legalization and legal threats. This may cause a decrease in the value of the REIT in the capital market, obliging market participants to critically evaluate the timing and mechanism of the IPO (Chemmanur *et al.*, 2010).

The company makes a strategic move to go public, which is a risky decision, and one that requires careful preparation, planning, and thorough readiness to guarantee the success of the process (Argaam, 2020). According to the procedures in Saudi Arabia, the IPO process has two phases, which are (1) preparation, and (2) share offering. First, during the preparation phase, the company prepares the offering's regulatory documents internally. This phase also includes preparing for registration and the offering request, as well as appointing external consultants and financial advisors. At this stage, the company will take the necessary legal, financial, commercial, and administrative measures to ensure that all relevant information and documents are accurate and reliable. The company also issues an offering prospectus that includes the offering layout and disclosures, as well as the company's obligations and pledges. The company will also develop a business plan for future objectives and expansions.

The second phase is the share offering, whereby the company files a request for IPO registration with the Capital Market Authority (CMA) and the Saudi Stock Exchange (Tadawul). When submitting its application statement to the CMA, the company will be required to pay a registration fee. There are several requirements to meet before issuing the company's shares, including that the company must have at least 200 shareholders, must float 30% of the company's share capital (the CMA may reduce the percentage upon approval), and must float 20% of the shares issued and shares worth 30 million Saudi Riyal. Additionally, companies must be worth at least 300 million Saudi Riyal in market capital to be listed in Tadawul.

After CMA approval, Tadawul should provide data about listed securities, including the company's main activities, fiscal year end, symbol, contact information, authorized capital, and information about the lead manager, underwriter, and receiving banks. Once the application is approved by the CMA and Tadawul, the company will set a price range, organize roadshows for potential investors, and start a book-building process. After that, institutional investors will start subscriptions on a price range. After reviewing investor bidding, the underwriter will set an offering price for retail investors, who will then be able to start their subscriptions. Finally, the company will announce the allocation of shares, deposit the shares in the shareholders' portfolios, and list the company on the market.

2.2. REITs:

"REIT" or "REITs" are publicly traded real estate investment funds that focus on facilitating investments in the developed and ready-to-use real estate sector to generate periodic income. As with investing in corporate equity, there are two ways to invest in REITs – buying shares at the IPO stage (primary market) when managers of REITs roll out the fund's units; or buying a share of the financial market (secondary market) after the fund units are traded in the market.

REIT track records of reliable and growing dividends, combined with long-term capital appreciation through stock price increases, have provided investors with attractive total return performances for a period of more than 45 years, compared to the broader stock market, bonds, and other assets. Listed REITs are professionally managed, publicly traded companies that manage their businesses with the goal of maximizing shareholder value. That means positioning their properties to attract tenants and earn rental income, managing their property portfolios, and buying and selling assets to build value throughout long-term real estate cycles.

However, closed-type real estate investment funds operate in accordance with the following purposes:

- Initial development to be sold: This is carried out by owning raw land, developing it, dividing it into residential and commercial land, and then selling it and terminating the fund.
- Construction development to be sold: This is carried out by owning raw or upgraded land for the construction of residential or commercial units, then selling it and terminating the box.

Initial or structural development has the aim of leasing for a specified period of time and then selling and terminating the fund. Furthermore, REITs invest in a variety of properties such as:

- Conditional return: Dividends distributed to unit owners shall not be less than 90% of the fund's net profits annually.
- Ease of investment: REITs are clearly characterized by their systems and ease of dealing with their units – sell and buy – in a similar manner to stocks listed on the financial market.
- Existing real estate: REITs contain established, upgraded, ready-to-use and income-generating real estate assets based on rent.
- High transparency: The Fund Manager is committed to submitting periodic reports on the Fund, which are displayed on the Tadawul website like the reports of other companies listed on the financial market.

REITs have high liquidity, low initial costs of investing in real estate, high transparency levels, and strong managers' commitments. Thus, REITs have delivered competitive total returns based on steady, high-dividend income and long-term capital appreciation. Their comparatively low correlation with other assets also makes them an excellent portfolio diversifier that can help increase returns and reduce overall portfolio risks. Although REITs can invest locally, regionally, and globally, the total value of the funds' real estate assets outside the Kingdom cannot be more than 25%, according to clear and specific policies of the CMA. REITs – like other financial market investment instruments – are subject to the supervision of the CMA and Tadawul, depending on their respective competencies. Financial market regulations also oblige REITs to have higher levels of transparency and disclosure than those imposed on the investment options available in the traditional real estate market. In addition, REITs must guarantee to distribute a minimum of 90% of their net profits periodically (annually). Another factor is that real estate prices are extremely high, which makes REITs a great choice for investment, compared to real estate.

However, this study focuses on better highlighting the investment into REITs in Saudi Arabia, which is not well studied by the literature. Accordingly, we investigate the relationships between IPO characteristics on firms' underpricing for real estate investment trusts (REITs).

2.3. Shares Underpricing:

Underpricing is the process of pricing REIT shares at less than their underwriter's price. This occurs when the share closes on the first trading day at lower than the IPO price. Theoretically, any IPO that raises the price on its first day of trading has been understated, either deliberately or accidentally. Perhaps the shares were deliberately underpriced in order to stimulate demand. However, the IPO underwriters may have underestimated the demand of stockholders and investors. Furthermore, a stock that closes on its first day below its IPO price is marked as a failure. The IPO may be underpriced if the sponsors are really unsure about the demand that the share will receive. After all, in the worst scenario, the share price will immediately increase to the price that is considered to be its value.

Whether or not it was underpriced, when the IPO is launched, the company becomes a publicly traded entity belonging to its stockholders. The demand from the shareholders will determine the share values on the stock market going forward. Within this context, the literature has identified two opposite phenomena for short- and long-term IPO returns. In the short term, initial performance is largely positive, while IPOs that are significantly undervalued are underperforming over the long term (Brobert, 2016). The phenomenon whereby the price of the IPO offer is systematically lower than the closing price on the first market day is called underpricing and constitutes the central point of this study.

3. Literature Review

There are numerous studies and much research that indicate the trajectory of institutional investors' allocations to companies. These studies have extensively investigated various aspects, including short- and long-run pricing and operational performance of IPO companies' studies (Welch, 2003). Jenkinson and Jones (2004), which was cited in Michel *et al.* (2020), indicated that institutional investors were given priority in allocating, and their allocations have been shown to significantly affect first-day returns. These institutional investors have led strongly in stocks immediately after the IPO (Hanley and Wilhelm Jr, 1995).

- **The study by Alanazi (2021)** which was conducted to analyze and investigate the relationship between the impact of ownership structure and firm performance, clearly differentiated between governmental ownership, institutional ownership, public ownership, family ownership, and foreign ownership. The study integrates these forms of ownership to compensate for the shortfall of the previous studies that focused on one or more of these forms. The study concluded that governmental and institutional firms have the best performance, compared with managerial and public firms (which have the worst performance). The estimations of OLS and 2SLS (two-stages least squares model) reveal that governmental and institutional ownerships have positive participation in the firms' performance, while public ownership has a negative impact.
- **The study by Dudycz (2022)** aimed to assess the impact of share capital matters and company performances with the support of accounting information, either before or after the subscription. The study, which was conducted on the Warsaw stock market, reveals that a high percentage of equity capital will reduce the flexibility of capital and enhance the company's performance. The study also concluded that the quality of accounting information issued will decrease after the IPO, which simply means that the quality of the accounting information has less impact on the performances of the firms before the IPO.
- **The study by Han *et al.* (2021),** which aimed to investigate the impact of failures of institutional investors and shareholding stability, was carried out in the Chinese stock market and covered the period 2014–2017. The study focused on five basic factors: business connections, policy factors, market factors, risk preferences, and firm factors, and how these factors could affect institutional investors' shareholding stability. The study employed regression analysis and concluded that the institutional investors with greater business connections, performance ranking intensity, and risk preferences have the least shareholding stability. The majority of the institutions who seek to invest in other businesses or through IPO representations reason that this will be similar to investing in bonds or stable investments, as the returns acquired will be acceptable, even when they are not the highest in the market, and the associated risks will compensate for the decreased returns (as these risks will be limited or acceptable).
- **The study by Ong *et al.* (2020)** was conducted to answer the question: Do institutional investors drive the IPO evaluation? The study, which also aims to evaluate the role of pricing mechanisms in this relationship indirectly, employed cross-sectional multiple regression to investigate the relationship between IPO pricing and institutional ownership. The research covered the period 2010–2018 through a sample of 450 Malaysian firms and IPO operations listed on the Malaysian stock market. The study concluded that there is a positive relationship between the ownership structure and the IPO evaluation. Evaluation by institutions based on the book-built IPOs will be closer to the company's intrinsic value.
- **On the other hand, the study by Saengchote and Charoenpanich (2021)** was conducted to analyze the relationship between cash flow uncertainty and IPO underpricing in the Thai REITS. The study covered the period 2005–2019 and used the linear regression model to investigate the nature of the relationship between cash flow uncertainty and underpricing or the initial return. Using the 3 SLS (three-steps or stages of least square) model, the study investigated whether decreasing the price (underpricing) will affect income negatively through the decrease in cash flow. This may be interpreted as meaning that REITs with income guarantees will tend to have lower systematic risks, which can measure the CAPM beta and return; this means that investing in REITs can be similar to investing in debts or bands that represent stable returns with lower risks.
- **However, the study by Michel *et al.* (2021),** which was conducted to analyze the basic determinants that induce investors to invest in IPO firms, focused mainly on evaluating the features of the subscription and the operating performance before the subscription process. The study concluded that the issuers or the institutions preferred the public subscriptions with a changing ownership structure, either to collect more money or to liquidate certain assets. The study further concluded that institutions are predisposed to allocate more investments in value firms rather than in growth firms, as the first group will expand and grow quickly with lower stock prices, compared with the second group of firms.
- **Another study (Michel *et al.*, 2020)** referred to the nature of the relationships between institutional investors and the company's performances, which was investigated through the IPO. The study concluded that there was no correlation between institutional ownership and the operating performance of the companies studied, especially in the case of the performance before the IPO. Corporate ownership increased from 24% to 36% at the end of year two of this IPO, and to about 42% on average, revealing a strong positive relationship between operational performance and corporate ownership, and also showing that they will be more active during the first three years of the IPO.
- **Meanwhile, the study by Çelik and Isaksson (2014)** investigated the relationship between institutional investors and ownership engagement. The research focused on seven basic determinants of ownership engagement, which include: the purpose, liability structure, investment strategy, portfolio structure, free structure, political/social objectives, and regular framework. The study reveals that the institutions may vary in their sizes, in the investments allocated towards various investment alternatives (such as hedge funds, investment funds, and other investments), and in ownership – factors that were previously determined and that formed the differences between institutional ownerships regarding their investments.

- **Another study, by Bird and Yeung (2010),** which was conducted to analyze the relationship between institutional ownership and IPO performance, especially in the long term, concluded that the relationship with institutional ownership will be more active in the long run; the market will be more stable and the quality of offerings issued and published by either businesses or formal institutions will increase, leading to a decline in prices.
- **The study by Chemmanur *et al.* (2010)** was conducted to investigate the relationship between institutional investors in the IPO processes. The study was based on the analysis of a large sample of institutional trading data. The institutional investors may have special data and knowledge about the businesses (issuers) that will cause those issuers to reduce their prices in order to convince those institutional investors not to disclose such data or information and to compensate them accordingly. The study also concluded that the institutions will sell 70.2% of the IPO allocations through the first year, while the following periods represent weaker demand for such stocks of offerings, which will lead to another price reduction. The data acquired by those block-holders or institutions may strongly affect the aftermarket and yield adequate compensation for their participation in IPOs.
- **There is also the study by Pons-Sanz (2005),** which was conducted to investigate who benefits from IPO underpricing through evidence of hybrid book building offerings. The study, performed with a sample of 175 offerings covering the period 1985–2002, interpreted the causes that led institutions to cultivate 75% of the underpriced issues and only bear 56% of the losses when overpricing occurred. In the overpricing, qualified data cannot be easily acquired, while in the long run, better or more qualified data can be attained with a higher degree of disclosure and transparency. The study concluded that the basically benefitting parties in the underpricing were the issuing businesses and the large investors, compared with the small or moderate investors. Those small or moderate investors may invest only due to their inability to invest in other options and their lack of qualifications for analyzing the market, as it is the largest institutions who have the required expertise, qualified analysts, and financial professionals.
- **The study by Huyghebaert and Van Hulle (2004)** was conducted to investigate the role of institutional investors in corporate finance and their partial influence on stock prices through various mechanisms, especially when there is a degree of information asymmetry between investors and firms. The study covered the period 1984–2000 and concluded that businesses may use and employ the stock market to finance their requirements and reduce the degree of control by engaging new investors and spreading ownership widely. These issuers may be less monitored by block-holders, while pre-allocating shares for institutional investors will reduce IPO and support liquidation, especially after the subscription process.

3.1. Relationship between Underpricing and REITs' Characteristics:

The uncertainty of market demand adds complexity to the task of pricing the shares of REITs. Potential investors have different perceived values of shares and stocks to be sold under a time constraint. This also forces managers to underprice the shares in order to sell them all. The above has been found to be particularly true in the case of a new equity issue by a firm through an IPO. In this case, the seller has to ensure that the securities offered at a particular price are attractive to all the classes of investors in order to induce the necessary demand. For this reason, potential investors require information about the REIT's characteristics. As information certainty increases, potential investors face less risk and greater underpricing. Thus, we expect a negative association between REIT status and underpricing.

H1: *There is a negative and significant association between REIT characteristics and underpricing.*

4. Research Methodology

4.1. Research Sample and Data:

The sample consists of 17 IPOs of REITs listed on the Saudi Arabian Stock Exchange for a period between 2016 and 2020. We start our sample from 2016, as REITs began to issue their shares during that year. We use IPO prospectus reports and market data from Tadawul (Saudi Arabia Stock Exchange) to collect our data. However, we focus on the REIT's sector in Saudi Arabia due to the underpricing of many REIT shares. As such, this study should provide highlights of REIT pricing in Saudi Arabia.

4.2. Model Specification and Variable Selection:

To test our hypothesis, we run our regression model using ordinary least squares (OLS), based on the following model:

Underpricing = β_0 + β_1 LogNum_Underwriters + β_2 LogNum_Subscribed + β_3 LogCapital + β_4 ForeignInvestment + β_5 Days_of_Subscription + β_6 Dummy_Div + ε_{it}

In addition, our explanatory variables are measured as follows:

- **Underpricing:** Underpricing is the process of issuing shares at a price below their real value in the first IPO on the stock market. Therefore, the stock is considered underestimated and underpriced when a new stock price settles above the set IPO price on its first trading day (Dimovski *et al.*, 2017). Underpricing cannot last long, because investor demand will push the price higher until it is equal to its market value. It equals the price of the shares at the IPO minus the current price of the shares.
- **Number of Underwriters (LogNum_Underwriters):** Natural logarithm of the number of banks offering the IPO to their customers.
- **Number of Subscribed (LogNum_Subscribed):** Natural logarithm of the number of persons subscribed is the number of investors and shareholders who purchase the offered shares of a specific company on the stock market.
- **Authorized Capital (LogCapital):** Natural logarithm of the total amount of capital received from shareholders and investors regarding the subscription price for shares.
- **Foreign Investment (ForeignInvestment)**: The ratio of total shares of Saudi domestic companies that foreign investors and foreign shareholders invest in.
- **Days of Subscription (Days_of_Subscription):** The period when all investors holding rights can subscribe to purchase the offered shares on the stock market.
- **Dividend payout (Dummy_Div):** A dummy variable that takes 1 if the REIT has given dividends in the first year of the IPO, or 0 otherwise.

5. Results

The summary statistics of REIT characteristics and underpricing are presented in Table 1. Table 1 displays the mean, median, standard deviation (SD), Min, and Max. It shows that 71% of REIT IPOs were underpriced in the first week. Additionally, 47% of the sample were underpriced on the first day. The tracing of the data collected reveals that foreign investments in Saudi Arabian REITs were few, with only the following REITs having foreign investments: Al Maatherc, 10%; Swicorp, 12%; SEDCO Capital, 8%; Al Rajhi, 15%; Al Ahli, 14%; and Al Jazira, 12%. Figure 1 shows the REIT first day underpricing in our sample. These findings indicate the importance of addressing our research question, which would provide essential implications for market participants.

Table 1: Summary Statistics

	Mean	Median	SD	Min	Max
logNum_Underwriters	0.94	1.1	0.26	0.69	1.39
logNum_Subscribed	10.55	10.29	0.91	9.54	12.26
logCapital	20.61	20.8	0.67	18.59	21.35
ForeignInvestment	0.04	0	0.06	0	0.15
Days_of_Subscription	11.8	11	5.64	3	20
Dummy_Div	0.47	0	0.51	0	1
Underpricing	0.02	0.08	0.87	-1	1

Figure 1: REIT Underpricing

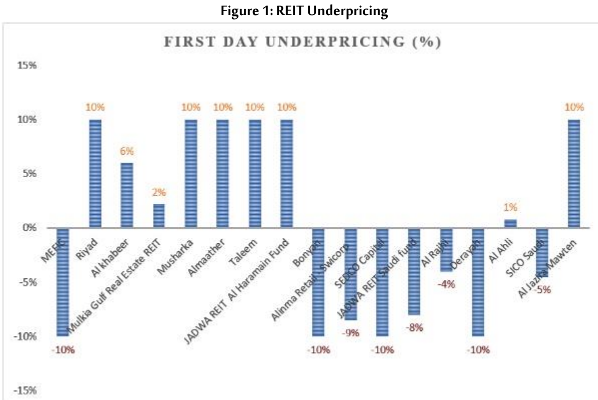

Table 2 presents the correlation matrix between our independent and control variables. Table 2 shows that the multicollinearity problem is not a concern.

Table 2: Correlation Matrix

	logNum_Underwriters	logNum_Subscribed	logCapital	ForeignInvestment	Days_of_Subscription	Dummy_Div
logNum_Underwriters	1					
logNum_Subscribed	0.64	1				
logCapital	0.04	0.27	1			
ForeignInvestment	-0.013	-0.11	-0.22	1		
Days_of_Subscription	0.31	0.47	0.48	-0.30	1	
Dummy_Div	0.06	0.04	0.47	-0.20	0.30	1

Table 3 reports the results of the OLS regression of our hypothesis. Column 1 shows that there is a significant effect of our explanatory variables on stock underpricing for REITs that have been underpriced in the first week (70% of the sample REITs). We find significant negative impact between logNum_Underwriters, logNum_Subscribed and Dummy_Div on Underpricing. Additionally, the result shows a significant positive association between Days_of_Subscription and Underpricing.

Table 3: Regression

	Weekly Underpriced REITS
	Underpricing (OLS)
logNum_Underwriters	-3.510**
	(0.447)
logNum_Subscribed	-0.865**
	(0.168)
logCapital	-0.716
	(0.418)
ForeignInvestment	7.064
	(2.576)
Days_of_Subscription	0.0983*
	(0.0322)
Dummy_Div	-1.574**
	(0.224)
Constant	26.94
	(9.749)
Observations	9
R-squared	0.981

This is the analysis of the selected REITs, and through the analysis of the initial prices of the public offerings, the beginning or opening and closing prices of first day of the issuance. A high percentage of REITs closed with lower prices and a reduction in prices. This may be due to macro-economic conditions in the economy, inflation rates, intended reduction by the issuers to gain or collect more money or liquidate specific assets for the current stockholders, and reduction of controlling or monitoring processes through innovating new investors. Similar studies in the European economies revealed that REITs, compared with REOC, leave less money in Table 3 due to the decrease in returns (associated with lower risks), and the majority of such price decreases are mainly due to overall economic conditions (Ascherl and Schaefers, 2018).

This research has produced a number of important findings, the most important of which are the following:

- REITs allow anyone to invest in actual property portfolios in the same way as they invest in other sectors by purchasing shares of a sole proprietorship, through a mutual fund, or through an exchange-traded fund.
- IPOs can be deliberately underpriced to stimulate demand and encourage investors to take a risk with a new venture.
- Overpricing is not much better than underpricing. A stock that closes with its first trading day price lower than its IPO price will be marked as a failure.
- IPOs have been used to enable corporations to raise capital from public investors by issuing shares to the public.

6. Conclusion

First, REITs allow anyone to invest in actual property portfolios in the same way as they invest in other sectors, by purchasing shares of a sole proprietorship, or through a mutual fund or through an exchange-traded fund. IPOs can be deliberately underpriced to stimulate demand and encourage investors to take a risk with new ventures. As such, a stock that closes with its first trading day price less than its IPO price will be marked as a failure. This research investigates the relationship between REIT characteristics and underpricing in Saudi Arabia. The study found an insignificant association between IPO characteristics and underpricing for all sample selections. However, using a subsample of firms that have been underpriced in the first week of their IPO, the results show significant negative associations between the number of IPO underwriters, number of shares subscribed, and the firm's dividend payout on REITs' underpricing. The result also shows a significant positive association between the number of subscription days and REITs' underpricing.

The research provides practical implications for market participants who choose REITs to generate fixed returns periodically. Real estate is expensive, and many people cannot invest in it, so real estate investment funds are the best choice for safe investment. REIT management also occasionally resorts to underpricing of an IPO in order to encourage investment and save its position in the stock market. Publicly traded REITs are companies that, when professionally traded in public, manage their firms in an effort to maximize shareholder value. This means setting up their properties to earn rental income, attract tenants, and manage their property portfolios, in addition to selling and buying assets to build value during long-term real estate cycles.

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