20TH ANNUAL PACIFIC-RIM REAL ESTATE SOCIETY CONFERENCE
CHRISTCHURCH, NEW ZEALAND, 19-22 JANUARY 2014

LONGITUDINAL STUDY OF THE SIGNIFICANCE OF TRUSTS AND COMPANIES LISTED ON THE NEW ZEALAND STOCK EXCHANGE UNDER THE PROPERTY SECTOR.

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ABSTRACT

According to economic theory the ownership structure of an entity impacts on its governance, behaviour, and performance. Globally, governments and investors have been demanding that Listed Property Vehicles (LPVs) improve these attributes, and as such, such entities have adopted Real Estate Investment Trust (REIT) structures or other optimal structures, such as a Stapled Security structure. Following this global trend, New Zealand's LPVs – generally considered by investors to be the equivalent of REITs - began focusing on their ownership structures, including unit trust and company structures. This focus has more recently resulted in a number of the listed property trusts converting to company structures.

The purpose of the longitudinal study is to examine the composition (types of ownership structures: during the 30 years to November 2013) and the significance (market capitalisation: during the 20 years to November 2013) of the New Zealand Stock Exchange (NZX) Property Sector, which was established in April 1982. Constituents of this Sector were initially established as companies and it was not until December 1993 that unit trust structures emerged: trusts and companies have continued to contribute to the value of the NZX Property Sector since December 1993.

Methodology for this study involved developing three new monthly market capitalisation series over the study period for the Listed Property Trusts (LPTs), the Listed Property Investment Companies (LPICs), and the overall LPV Sector. Data for these series and for the existing monthly NZX All market capitalisation series were sourced from the NZX. Comparative analysis undertaken between these series demonstrate that the LPV Sector is now a major NZ asset class - having grown in significance and now accounting for approximately 9% of the value of the NZX. Indeed, companies presently make a greater contribution than trusts to the value of the overall LPV Sector. Further, the results highlight that the Property Sector was dominated by companies from December 1993 to 1999, at which point the trusts, having matured and grown in number, became the dominant sub-sector for the next 13 years (until June 2013). These findings reveal the major contribution that trusts and companies have made to New Zealand's listed property market. It provides government, investors, LPVs and researchers with a better understanding of the historical significance of these listed property ownership structures.

Keywords: Listed Property Vehicles, REITs, market capitalisation, significance, New Zealand.

INTRODUCTION

In order for publically owned property investment vehicles to improve their governance, behaviour, and performance, they must adopt an optimal ownership structure (CFA-Institute, 2011; Jensen & Meckling, 1976; Pedersen & Thomsen, 1997; Shleifer & Vishny, 1986; Sorenson, 1974; Williamson, 1964). Governments, in a number of countries, have therefore established legislation for different ownership structures that Listed Property Vehicles (LPVs) can adopt to improve these attributes. This includes Real Estate Investment Trust (REIT) structures, company (corporation) structures, unit trust structures, and stapled security structures (contractually bound securities from a unit trust and a company or a REIT). These LPVs are defined as collective investment vehicles that invest in either a diversified or sector-specific pool of professionally managed real estate assets (CFA-Institute, 2011).

Globally, since the early 1960s, REIT structures have been a popular ownership structure (CFA-Institute, 2011; Grant Thornton, 2012; Newell, 2012) adopted by LPVs due to their favourable tax treatment. Other countries, such as Singapore and Australia, have chosen to also adopt stapled security structures to achieve tax benefits for investors. In New Zealand, because legislation for both REITs and stapled securities has not yet been established, the LPVs on the New Zealand Stock Exchange (NZX) have adopted either a company (corporation) or unit trust structure. To achieve tax benefits for investors these NZ LPVs have chosen to operate as Portfolio Investment Entities (PIEs): under this regime the tax benefits are passed through to LPV investors (IRD, 2011). A more recent trend has emerged in some established listed property markets, such as South Africa (SA) and New Zealand (NZ), whereby existing LPVs have restructured in order to improve their governance, behaviour, and performance. LPVs in these markets have converted to either a REIT (in SA) or a company structure (in NZ), in order to remain attractive to investors. Since 2010, for example, three trusts listed under the NZX Property Sector have corporatised and reportedly (KordaMentha, 2010, 2011; Grant Samuel, 2011; J.A. Simpson, personal communication, 2011) these conversions have involved significant costs.

Despite the substantial costs involved in restructuring an LPV and the importance of the ownership structure decision, there appears to be a lack of longitudinal scholarly studies that have examined the contribution made by particular ownership structures to specific investment markets. A study of this phenomenon would provide useful insights for investors, governments, the LPVs, and researchers and would also provide empirical evidence upon which to base future ownership structure decisions and justify past decisions.

A review of the relevant literature focussing on NZ's listed property market (e.g. Fraser, 1993; Hobbs, 1994; Forsyth Barr, 2011, 2013; KordaMentha, 2010; Grant Samuel, 2011; J.H. Simpson, 2011; Stokes, 2000) and from discussions with NZ market analysts (e.g. G. Newell; J.A. Simpson) revealed that: (1) companies were the only property investment vehicles listed under the NZX Property Sector between April 1982 and November 1993, (2) since December 1993, the NZX Property Sector has comprised of both trusts and companies and the proportion of these ownership vehicles (the composition) has been changing, and (3) the significance (market capitalisation) of this Sector has also been changing since 1993. This review showed that there is a lack of studies that have examined the extent of the changes to both the composition and significance of NZ's listed property market and also whether economic conditions have impacted on these changes.

The overall purpose of this longitudinal study is to examine the composition (types of ownership structures) and significance (market capitalisation) of the New Zealand Stock Exchange (NZX) Property Sector. The study seeks to determine (1) how the composition has changed between April 1982 and November 2013, and (2) how the significance of the NZX Property Sector and its underlying ownership structures (the trusts and companies) has changed between December 1993 and November 2013.

LITERATURE REVIEW

Most overseas studies that have focused on listed property markets (e.g. Brockman, French, & Tamm, 2010; CFA-Institute, 2011; Macquarie Research, 2011; Newell, 2012; Newell, Hwa, & Acheampong, 2002; Osmadi, 2010), in the US, UK, Europe, Asia and Australia, have researched: (1) the aggregate performance of the Listed Property Vehicles (LPVs), (2) the management structures and activities of LPVs, and (3) the role of property sectors, types and locations (in a LPV's portfolio). Depending on the country being researched, the different LPV ownership structures have been classified by analysts as either Real Estate Investment Trusts (REITs) or Listed Property Trusts (LPTs).

In New Zealand, according to J.A. Simpson (personal communication, 2012), vehicles (trusts and companies) listed under the NZX Property Sector were initially grouped together under the LPT classification, but nowadays are classified as Listed Property Vehicles (LPVs). According to G. Newell (personal communication, 2010), a prolific researcher in the area of property securities, there is a lack of scholarly research on NZ LPVs. A review of the relevant NZ literature revealed that scholars (e.g. Fraser, 1993; Grant Samuel, 2010, 2011; Hobbs, 1994; Korda Mentha, 2010; MacDonald, Bianchi & Drew, 2012; J.H. Simpson, 2011; Stokes, 2000) and corporate researchers (e.g. Forsyth-Barr, 2011; FundSource & NZX-Limited, 2010) have investigated similar themes to those studied in other global markets. Further, this review highlighted firstly that none of these NZ studies have examined the NZX Property Sector using the ownership structures of the constituent vehicles and secondly that there is a lack of empirical evidence as to the extent of the changes to the NZX Property Sector's composition (ownership structures) and significance (market capitalisation), over the last 30 years. This information would be useful to examine the development and growth of the NZX Property Sector and provide justification for adopting or converting to a specific ownership structure.

Ownership structures

The ownership structure of an entity is the legal structure of that entity. Worldwide various ownership structures exist for the different publically owned property investment entities, which are referred to in this study as Listed Property Vehicles (LPVs), and each country has its own legislation to govern these vehicles.

According to economic theory the ownership structure of an entity influences three key attributes: the entities governance, behaviour and performance (CFA-Institute, 2011; Jensen & Meckling, 1976; Pedersen & Thomsen, 1997; Shleifer & Vishny, 1986; Sorenson, 1974; Williamson, 1964). Hence, LPVs worldwide over the past 50 years have adopted the following ownership structures that they perceive will optimise these attributes: REITs, companies (corporations), unit trusts (including stand-alone unit trusts), and stapled securities.

However, some supposed optimal entities have been underperforming due to globalisation, economic conditions, the changing investment market, and investor demand. A recent study of global REIT markets (CFA-Institute, 2011) found that underperforming LPVs have been using a number of reform options to improve both their governance and performance: (1) converting to a better ownership structure, (2) adopting best practice governance via guidelines, and (3) adopting management fee structures in order to align management incentives with shareholder interests.

Globally, listed property markets are expected to continue growing and developing, despite the challenges they face (Newell, 2012). Researching the contribution that specific LPV ownership structures have made historically to the value and performance of these markets is important as the findings assist stakeholders in making future ownership structure decisions.

Global listed property securities markets

Listed property securities emerged as an alternative form of property ownership in 1961 in the United States (US) in response to investor demand for greater exposure to property. REITs are attractive to investors as they offer both "liquidity and high quality commercial real estate investment opportunities" (Newell, 2012, p. 6), whilst providing tax benefits for investors. Nowadays, the US Real Estate Investment Trust (REIT) market is considered to be the largest REIT market globally (CFA-Institute, 2011).

Since the 1960's, property securities markets have become a global phenomenon with markets established in countries throughout Asia, Europe, Oceania, Africa, the Americas, and the Middle East. Studies (e.g. CFA-Institute, 2011; Newell, 2012) have highlighted the growing status of these existing markets and have also identified new emerging listed property markets in other countries, such as India and China.

According to Newell's (2012) study, between 2000 and 2010 REIT legislation was adopted by France (2003), the UK (2007), and other countries in the Asia-Pacific region, in order to improve their listed property markets. More recently South Africa has also followed this trend (Grant Thornton, 2012). As such, existing LPVs in these investment markets have been able to convert to the new REIT structure and new entities have chosen to adopt a REIT structure. New Zealand (NZ), however, has not followed this global trend because firstly the NZ LPVs are very similar to REITs and secondly because favourable tax treatment already exists for NZ LPVs (J.A. Simpson, personal communication, 2011; J.H. Simpson, 2011).

The New Zealand listed property securities market

Internationally New Zealand's Listed Property Vehicles (LPVs) are recognised by investors as Real Estate Investment Trusts (J.A. Simpson, personal communication, 2012). This observation is supported by Macquarie's (2011) study, which used the REITs classification for New Zealand's LPVs and is further supported by J.H. Simpson's (2011) study, which identified that the only difference between NZ LPVs and global REITs is the tax benefits they use to attract investors.

Globally, REIT investors benefit from flow-through taxation; whereas in New Zealand, under the Portfolio Investment Entity (PIE) regime, the tax benefits are passed through to LPV investors (CFA-Institute, 2010; IRD, 2011). The NZ Government introduced the Portfolio Investment Entity (PIE) regime in October 2007. This PIE regime was expected to have the effect of improving tax benefits (hence improving returns) for those domestic investors on a lower marginal tax rate (Korda Mentha, 2010), with stocks in NZ LPVs that have PIE status (currently all the LPVs have elected to operate as PIEs).

The New Zealand listed property market was established in April 1982. Over the past thirty years, two types of property vehicles have existed in this market, namely the Listed Property Trusts (LPTs) and the Listed Property Investment Companies (LPICs). LPTs are unit trusts established under the Unit Trusts Act 1960 and LPICs are limited liability companies created under the Companies Act 1993. According to NZX data, the first property investment company (Landmark Corporation Limited, NZX:LAN) listed on the NZX on 5 April 1982, with the first property trust (Kiwi Income Property Trusts, NZX:KIP) listing on 3 December 1993.

In terms of the property investment activity undertaken by these companies and trusts, earlier studies (Hobbs, 1994; Fraser, 1993) found that New Zealand's LPVs tended to mostly acquire and/or develop investment quality urban properties for retention in a portfolio, which was then professionally managed (externally or internally), over a period of time. These observations are supported by J.A. Simpson (personal communication, 2010), who also commented that NZ LPVs nowadays, when compared with overseas vehicles, typically fall into an investor/developer category: in that they own properties (that have been acquired or developed), collect rents and pay dividends. However, in order to compare the significance (market capitalisation) of NZs listed property market with global REITs some researchers (e.g. Forsyth Barr, Macquarie Research) have excluded LPVs that do not fit into the investor/developer category. Hence, CDL Investments New Zealand Limited, which is a constituent of the NZX Property Sector, has been excluded in analysis undertaken by these researchers, as it is deemed to be purely a residential development company (J.A. Simpson, personal communication, 2011). The company's 2012 Annual Report supports this view, showing that the company does not hold investment property, collects no rental income, and stating that its principal activity is "the development and sale of residential land properties" (page 15, CDL Investments NZ Ltd, 2012).

According to the literature (e.g. Forsyth Barr, 2011, 2013; Fraser, 1993; Grant Samuel, 2010; Hobbs, 1994; Newland, 2007; J.H. Simpson, 2011) over the last 30 years the proportion of trusts and companies listed under the NZX Property Sector has varied. Over this period there have been various new listings, take-overs, entities failing, and some conversions (the corporatisation of some trusts), which have resulted from the impact of changing economic conditions and shifting investor perceptions (J.A. Simpson, personal communication, 2011). Despite these observed variations, it appears that since 1982 there have been no longitudinal studies that have examined the compositional changes and the effect of these changes on the significance of the NZX Property Sector: this information would provide useful insights when examining the growth and development of New Zealand's listed property market. Further, reviewing this relevant literature and from discussions with listed property market analysts (e.g. G. Newell; J.A. Simpson) it also seems that previous research has not analysed the impact of economic conditions on the composition, significance, and performance of the NZX Property Sector.

The significance of New Zealand Listed Property Vehicles

At a global level, a study by Macquarie Research (2011) found that the listed property market in New Zealand made a relatively small contribution to both the Global Property Securities Portfolio and the Global REIT Market Portfolio, as at the 30 September 2011 (refer to Table 1 and Table 2). However, at a local level, the NZX Property Sector is considered to be a major NZ asset class (FundSource & the NZX, 2010), which is making a significant contribution to the value of the Stock Market: a study by Forsyth Barr (2011) found that the NZX Property Sector (excluding CDL New Zealand Investments Limited) had a full market capitalisation of NZD 4.33 billion, as at the 30 September 2011, which equates to an 8.8% contribution to the value of the NZX All (full market capitalisation NZD 49.39 billion).

In terms of the global property securities market composition, shown in Table 1, New Zealand's listed property market (comprised ten LPVs on the NZX, including CDL) contributed only 0.2% towards the total worth of the Global Portfolio. Also presented in this Table is the contribution of selected countries for comparative purposes.

Table 2 shows that the New Zealand listed property market (which includes eight of the ten LPVs: encompassing only the LPVs that are similar to REITs) contributed just 0.4% towards the Global REIT market portfolio, which ranks the local New Zealand market as 13th largest out of the 22 international REIT markets (Macquarie Research, 2011). A selection of countries has been presented in Table 2 again for comparative purposes. Unfortunately post-30 September 2011, Macquarie Research no longer produces their reports on the global REIT markets (G. Newell, personal communication, 2013).

Table 1: Global property securities markets composition (as at 30 September 2011)

Country	Number of Companies	Sector market cap (NZD billion)	% of global listed real estate equity market
US	266	554.5	27.7%
UK	140	72.9	3.6%
Australia	96	97.6	4.9%
Japan	139	159.0	7.9%
Malaysia	79	20.5	1.0%
New Zealand	10	4.3	0.2%
Global Total	1,956	2,004.6	

Source: Macquarie Research (2011), from original data source: Bloomberg (2011)

Table 2: Global REIT market composition (as at 30 September 2011)

Country	Number of Companies (similar to REITs)	REIT sub-sector market capitalisation* (NZD $billion)	* % of local listed Real estate market	% of global REIT market
US	180	490.9	88.5%	55.0%
UK	21	45.7	62.6%	5.1%
Australia	53	88.2	90.3%	9.9%
Japan	34	51.5	32.4%	5.8%
Malaysia	14	4.6	22.1%	0.5%
New Zealand	8	4.0	94.8%	0.4%
Global	510	892.3		

Source: Macquarie Research (2011), from original data source: Bloomberg (2011)

Table 3: Profile of the New Zealand LPVs (excluding CDL Investments) as at 30 November 2013

Listed Property Vehicle	NZX Code	Listed Property Vehicle	Total Assets (NZD $m)	Effective Date: Annual Report	Full Market Capitalisation (NZD $m)	Index Market Capitalisation (NZD $m) Free Float	Year Listed	Sector
Argosy Property Limited	ARG	LPIC	$993	31/03/2013	$741	$738	2002	Diversified
Augusta Capital	AUG	LPIC	$107	31/03/2013	$63	$51	1993	Diversified
DNZ Property Fund Limited	DNZ	LPIC	$684	31/03/2013	$447	$445	2010	Diversified
Goodman Property Trust	GMT	LPT	$2,052	31/03/2013	$1,235	$1,014	1999	Diversified
Kiwi Income Property Trust	KIP	LPT	$2,126	31/03/2013	$1,112	$1,015	2006	Diversified
NPT Limited	NPT	LPIC	$157	31/03/2013	$99	$98	1996	Diversified
Precinct Properties NZ Ltd	PCT	LPIC	$1,659	30/06/2013	$1,044	$818	1997	Office
Property For Industry Limited	PFI	LPIC	$835	31/12/2012	$541	$531	1994	Industrial
Vital Healthcare Property Trust	VHP	LPT	$629	30/06/2013	$430	$337	1999	Health
TOTALS			**$7,190**		**$5,712**	**$5,047**		

Data Sources: (Forsyth-Barr, 2013; NZX, 2013)

A more recent profile of the NZX Property Sector is presented in Table 3. The data used to develop this table was sourced from a NZX Property Sector research report by Forsyth Barr (2013) and from NZX data (2013). This Table shows that, as at 30 November 2013, the NZX Property Sector had a total asset value of NZD 7.19 billion and comprises nine constituent LPVs (excluding CDL Investments NZ Limited as previously discussed).

The information in Table 3 reveals that these nine LPVs held mostly diversified portfolios with some sector-specific portfolios and that three of the LPVs were structured as unit trusts and the other six as companies. Further, Table 3 shows that the nine LPVs had a full market capitalisation of NZD 5.71 billion (as at the 30 November 2013), which despite the slight reduction, is still significant (7.4%) at a local level when compared to the value of the NZX All (NZD 76.73 billion).

RESEARCH METHOD

The population for this study is defined as all the property vehicles listed on the New Zealand Stock Exchange (NZX), which are or have been grouped in the NZX Property Sector during the study period. The constituent of the NZX Property Sector have been categorised in this study into two types of ownership structures, namely the listed property Unit Trusts and the Companies. The same informal classification (E. Corry, personal communication, 2011) that the NZX adopts for the NZX Property Sector constituents has been adopted for this study. Other listed entities that behave like LPVs or REITs, such as Ryman Healthcare Limited or Seeka Kiwifruit Industries Limited respectively, are beyond the scope of this study. Unlisted indirect property investment vehicles are also not included in this study.

The study began by examining the composition of the NZX Property Sector over a thirty year period (December 1982 to November 2013) using standard descriptive statistical tools. Composition was described using the ownership structures, namely trust and company structures, which constituent LPVs of this Sector have adopted. This initial part of the research began by undertaking a literature review, sourcing data from the NZX on the listing and delisting dates of the constituent LPVs, and tabulating the data in order to assess the number of trusts and companies within this Sector on an annual basis. To illustrate the extent of the changes to the composition of the NZX Property Sector the results were graphed: using the frequency data. Next, the study assessed the significance of the trusts and companies listed under the NZX Property Sector using time series methodology, which is a common method used previously to examine the significance of other LPV markets such as Australia and Malaysia (e.g. Newell, G., & Peng, H.W., 2006, 2007; Osmadi, 2010). Significance is measured in these studies using the market capitalisation of the LPVs (also typically referred to as REITs or LPTs).

The first stage of the time series research involved a review of the relevant literature and databases (e.g. NZX Company Research, DataStream, IPD), which revealed that the NZX only started producing time series data for the Property Sector in October 1997, despite the Sector having first been established in 1982 in New Zealand. Hence, the next stage of the study was to develop three new monthly market capitalisation series for the trusts companies and the overall Property Sector. To assess the extent of the contribution that the trusts and companies have made to the value of the NZX Property Sector, whilst existing alongside each other, these new monthly time series started in December 1993 (the study period ends on the 30 November 2013). A convenience sampling approach was used to gather the monthly market capitalisation data for each LPV asset class: market capitalisation data were gathered from the NZX. This monthly data formed the basis for the three newly created monthly LPV, LPT, and LPIC series.

The third stage of the time series analysis involved using the new monthly series as well as the monthly market capitalisation series for the Stock Market (NZX All) to undertake proportional and comparative analysis over the entire study period. Further sub-period analysis was also used in the study to examine the impact of market conditions on the significance of the LPVs. The three sub-periods were divided by key economic crises identified from the literature reviewed and these sub-periods are named as follows: pre-Asian crisis (31 December 1993 to 30 June 1998), Asian crisis to pre-GFC (1 July 1998 to 30 September 2008), GFC and post GFC (1 October 2008 to 30 November 2013). The break- points for the study period are July 1998 for the Asian Crisis and October 2008 for the GFC. The findings were tabulated and illustrated graphically in order to show the growing significance of the NZX Property Sector in New Zealand's investment market and to highlight the proportional changes to the contribution that each of the ownership structure sub-sectors (namely the LPTs and LPICs) made to the NZX Property Sector, over the 20 year study period.

The study included CDL Investments New Zealand Limited (which listed on the in January 1986) in the compositional analysis but not in the market capitalisation proportional and comparative analysis: following the approach taken by previous studies (e.g. Forsyth Barr, 2011, 2013; Macquarie Research, 2011). The reason for excluding this property vehicle when analysing the significance of the NZX Property Sector is for comparative reasons. The remaining LPVs in this Sector are all similar to global REITs and as such offer useful insights when compared to other markets, whereas CDL Investments New Zealand Limited is not, being purely a residential property development company (refer to page 11).

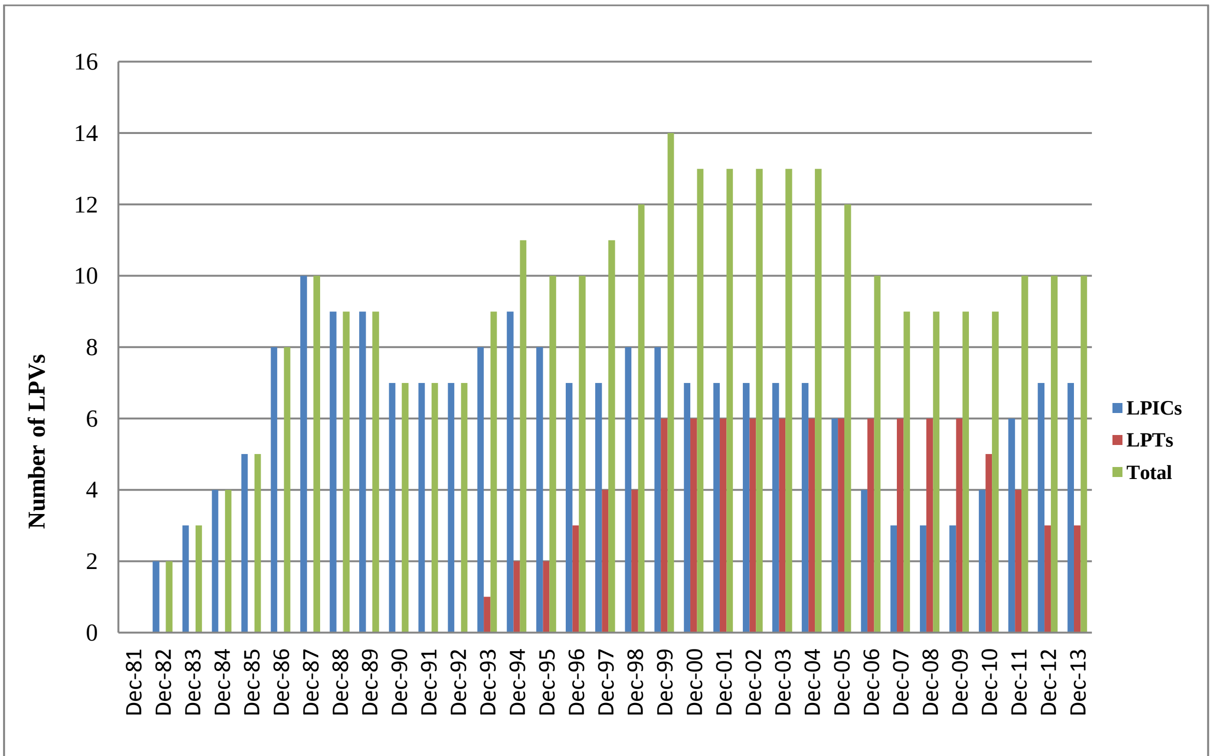
The size of both the NZX Property Sector population was a limitation for this study, with between two and fourteen entities contributing to this Sector over the study period. A further limitation was the reliance by this study on the NZX Property Sector classification for LPVs. The findings in this study are solely based on the NZX Property Sector classification of LPVs, with the research encompassing only the constituents of the Property Sector. However, as observed by both Radford (personal communication, 2010, cited in J.H. Simpson, 2011), and Garner (personal communication, 2012), the NZX Property Sector classification excludes other entities listed on the NZX, which have major property holdings or that behave like stapled securities, and as such they argue that this exclusion limits the size of LPV population and that further research could incorporate a wider classification.

RESULTS & DISCUSSION

The NZ LPV ownership structures

A review of the literature (e.g. Hobbs, 1994; Newland, 2007; J. H. Simpson, 2011) revealed that the NZX Property Sector, which was established in 1982, was entirely dominated by property investment companies until December 1993, when the first trust listed under this Sector. Figure 1 illustrates the number of constituent companies and trusts that have contributed to the NZX Property Sector, between December 1982 and 2013.

Figure 1: Composition of the NZX Property Sector - The number of LPVs between December 1982 and 2013.



Original Data Source: NZX (2013)

Figure 1 also reveals that the number of constituent LPVs in this Sector has varied over the study period, between two LPVs (in 1982) and fourteen LPVs (in 1999). Moreover, this graph shows how each ownership structure (namely the companies and trusts) has grown and reduced during this period. After the establishment of the NZX Property Sector, Figure 1 reveals that the number of companies (LPICs) grew quickly between 1982 and 1987 (two to ten LPICs respectively), and that between December 1987 (after the Stock Market Crash) and December 1992, the number of LPICs dropped back slightly to eight. According to J.A. Simpson (personal communication, 2011) and Newland (2007), this drop was due to the failure of three major companies: Equiticorp Holdings Limited in October 1988, Landmark Corporation Limited in July 1990, and Chase Corporation Limited in September 1990.

To examine the period (post-December 1993), during which trusts and companies have both been contributing to the value of this, the study segmented the NZX Property Sector, using the ownership structures of the LPVs. The results of the comparative analysis (see Figure 1) show that the number of trusts (LPTs) and companies (LPICs) has varied.

Figure 1 reveals that the number of companies (LPICs) remained mostly steady (oscillating between seven and eight companies) between 1993 and 2004, with a small peak of nine companies in 1994. Post-2004 the number of companies began falling until only three remained by 2009. However the graph also shows that between 2010 and 2013, the number of LPICs grew to seven. These observations post-2004 are supported by the literature, which revealed that between 2004 and 2009 one company failed and three were taken-over by other companies, and between 2009 and 2013 one new company listed under the Property Sector and three existing trusts converted to company structures.

These results (see Figure 1) also reveal that the number of trusts (LPTs) grew between 1993 and 1999 (from one to six trusts) as this sub-sector became established, then remained steady at six LPTs between 2000 and 2009, before reducing gradually to three trusts in 2012: due to the corporatisation of the three trusts. According to J.A. Simpson (personal communication, 2011), it is expected that further reductions in the number of trusts will be observed: Vital Healthcare Property Trust (VHP) are considering this potential conversion, subject to unit holders' approval.

The significance of NZ LPVs: market capitalisation analysis

Since December 1993, trusts and companies have both contributed to the value of the NZX Property Sector. Proportional analysis of this Sector (see Figure 2) reveals the growing contribution (index (free float) market capitalisation) that the LPVs (excluding CDL Investment NZ Ltd: refer to page11), have made to the value of the NZX All.

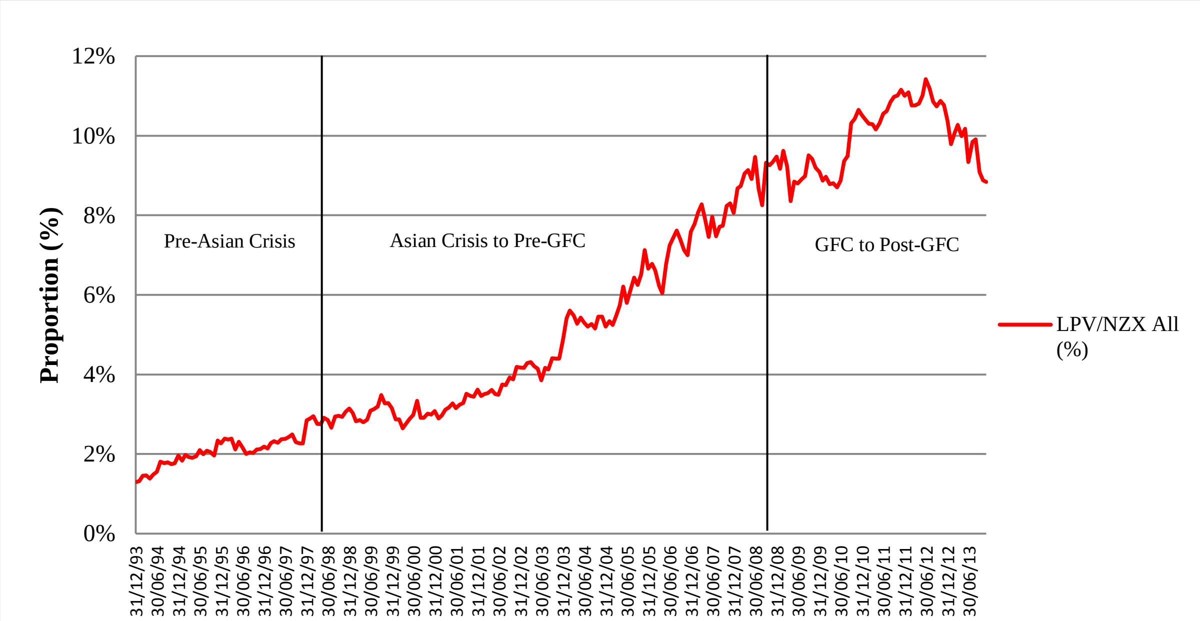
Figure 2 illustrates, based on index market capitalisation figures, that the value of the NZX Property Sector (LPVs) increased as a proportion of the value of the NZX All (the NZ Stock Market), from approximately 1.3% to 11.4% between December 1993 and June 2012 then more recently has reduced to approximately 8.8%. These findings reveal that the LPVs have grown to become a significant asset class in New Zealand over the past twenty years: December 1993 to November 2013.

Table 4 shows the contributions (index market capitalisation in $NZD) that the LPV sector has made to the Stock Market (NZX All). The dates in Table 4 and 5 represent the following critical points: 31 December 1993 (the first month that both LPTs and LPICs contributed to the NZX Property Sector, which is the start of the study period), 30 June 1998 (the structural break for the first sub-period, namely the Asian Crisis), 30 September 2008 (the structural break for the second sub-period, namely the Global Financial Crisis), and 30 November 2013 (the end of the study period).

The result shown in Figure 3, highlight that the value (market capitalisation $NZD) of New Zealand listed property sector (LPVs) has tended to trend upwards over the twenty year study period. This graph reveals the impact of both the Asian Crisis and the Global Financial Crisis (GFC), on the LPV sector's and sub-sectors' market capitalisation.

Two important shifts in the market capitalisations of these indirect property asset classes are identified in Figure 3. Firstly, the sharp fall in the market capitalisation in January 2004, which according to the literature (NZX, 2010) was due to the change to the equity indices method used by the NZX, moving from full market capitalisation weighting to free float market capitalisation weighting: free float is the portion of indexed shares that are freely tradable. Secondly, the sharp increase in the market capitalisation in December 2006, which was reportedly (KordaMentha, 2010) due to increased investor interest, after the Government announced its intention to introduce the PIE regime in October 2007: the taxation of PIEs was expected to result in better returns for investors.

Figure 2: The market capitalisation contribution of the NZX Property Sector to the New Zealand Stock Market (NZX All) - 31 December1993 to 30 November 2013



Original Data Source: NZX (2013)

Table 4: Index Market Capitalisation Contribution - LPV Sector to the NZX All

	Market Capitalisation		NZX All
As At	LPV Sector	NZX All	LPV %
31-Dec-93	$593,494,207	$45,804,995,220	1.3%
30-Jun-98	$1,244,999,873	$43,560,263,786	2.9%
30-Sep-08	$2,875,757,637	$30,834,929,515	9.3%
30-Nov-13	$5,046,710,491	$57,102,974,360	8.8%

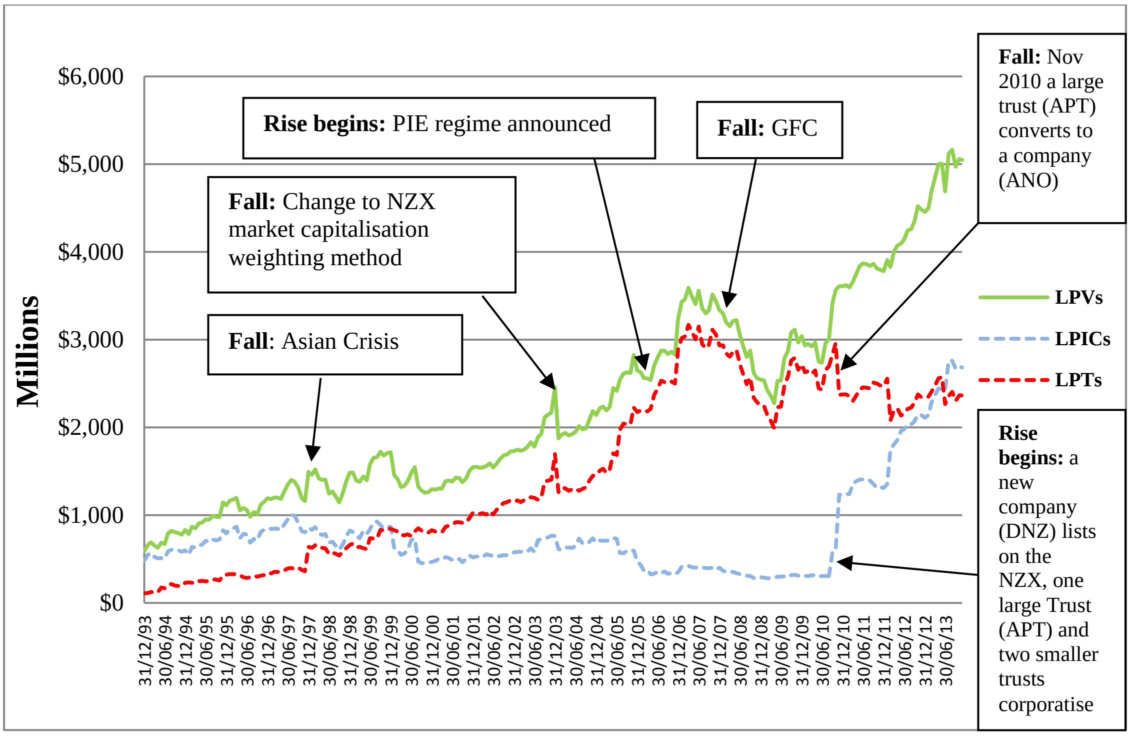
Original Data Source: NZX (2013)

Attention is drawn to Figure 1 demonstrating that between December 2004 and December 2007 the number of companies reduced by over 50% (from seven to three), whilst the number of trusts remained steady at six. The impact of this dwindling number of LPICs is clearly shown at Figure 3 (note reduced market capitalisation for this sub-sector), whereas conversely, the market capitalisation for the LPT sub-sector grew steeply as a function of the market boom prior to the GFC.

Furthermore, towards the end of 2010 Figure 3 reveals two more trends (also exemplified in Figure 4): between September 2011 and December 2011 the free float market capitalisation of the LPIC sub-sector rises steeply (NZD 631 million), whilst the LPT sub-sector falls steeply (NZD 588 million). These upward and downward trends in the index market capitalisation of the LPICs' and the LPTs respectively, according to Forsyth Barr (2011) are the result of two events. Firstly the listing of a new property investment company (DNZ Property Fund Limited) on the NZX, mid-August 2010 (this company's index market capitalisation grew steadily from NZD 272 million to NZD 293 million, between September and December 2010). The second event was the restructuring of AMP NZ Office Trust (APT), on the 1 November 2010, to an incorporated company (ANO). This restructuring was due to investor pressure post-GFC: APT was the third largest LPV in the NZX Property Sector with an index market capitalisation of NZD 778 million at the time of conversion.

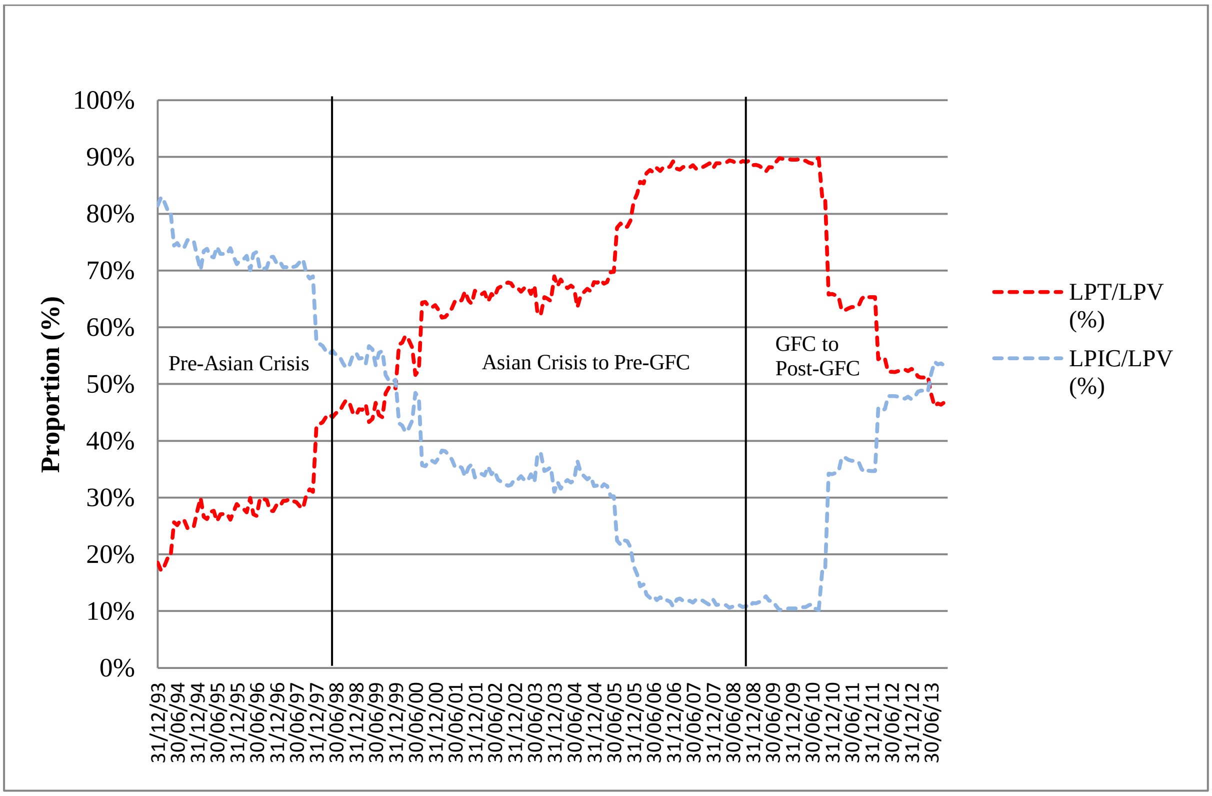
Over the twenty year study period, proportional analysis of the market capitalisation series (see Figure 4) also revealed that the contributions of the LPT sub-sector and the LPIC sub-sector to the overall LPV Sector (also known as the NZX Property sector) have varied. Figure 4 shows that as at the 31 December 1993, the LPICs were the major contributors (approximately 80%) to the market capitalisation of the overall LPV sector.

Figure 3: Market capitalisation analysis of the New Zealand listed property sector - 31 December1993 to 30 November 2013



Original Data Source: NZX (2013)

Figure 4: The market capitalisation contribution of the LPT and LPIC sub-sectors to the overall LPV Sector of the NZX - 31 December1993 to 30 November 2013



Original Data Source: NZX (2013)

The foregoing results suggest that the major economic downturns (the Asian Crisis and the Global Financial Crisis) have had some influence on the contributions that both the trusts and companies have made to the value of the NZX Property Sector. Further, according to the literature as a result of companies failing after the Stock Market Crash in October 1987, property trusts began to list on the NZX in December 1993: investors perceived a trust as being a more trustworthy property investment vehicle. Figure 4, shows that the contribution that these trusts made to the NZX Property Sector grew steadily (which was due to the growth in the number and maturity of LPTs) and finally surpassed the contribution made by the companies (which were more established initially) in September 1999, after the Asian Crisis. Further, after the Global Financial Crisis, these results show that the companies regained their dominance.

Further, Figure 4 shows that between January 2000 and May 2013 the LPTs have been the major contributor to the value of the LPV Sector, peaking at approximately 90% during the period August 2008 to August 2010. These results also highlight the significant reduction (approximately 40%) in the contribution that the LPTs made to the overall LPV sector in 2010, due to the previously documented following events, firstly, the listing of DNZ Property Fund Limited in August 2010, and secondly, the corporatisation of a large trust (AMP NZ Office Trust) in November 2010. The contribution made by LPTs reduced further between 2011 and 2013, due to the following two trusts corporatising: the National Property Trust (NAP) converted to a company in April 2011 and was renamed NPT Limited (NPT) and Argosy Property Trust (ARG) converted to a company in February 2012 (after internalising management in 2011) and was renamed Argosy Property Limited. By November 2013, it can be seen (Figure 4) that the three remaining LPTs were contributing 47% to the value of the NZX Property Sector, whilst the six LPICs were only contributing 53%.

Table 5 presents the contributions LPTs and LPICs have made to the overall LPV Sector market capitalisation. Value contribution ratios are also shown in this table, for critical end of month dates (the Asian Crisis and the GFC) during the twenty year study period.

Table 5: Index Market Capitalisation Proportions - LPT sub-sector to the LPIC sub-sector

	Market Capitalisation		LPV Sector	
As At	LPT Sub-Sector	LPIC Sub-Sector	LPT %	LPIC %
31-Dec-93	$110,120,542	$483,373,665	19%	81%
30-Jun-98	$558,603,194	$686,396,679	45%	55%
30-Sep-08	$2,568,115,087	$307,642,549	89%	11%
30-Nov-13	$2,365,495,648	$2,681,214,843	47%	53%

Original Data Source: NZX (2013)

These results provide longitudinal empirical evidence of the growing size and significance of NZX Property Sector. The results revealed the extent of the compositional changes and also the size of the contributions made by the two ownership structure, namely the trusts and companies. The changing dominance of the trusts and the companies (listed under the NZX Property Sector) are highlighted, with the companies now gaining the upper hand both in their numbers and size.

CONCLUSION

Much of the literature in this general area of study is consistent with arguments emphasising the importance of the ownership structure of an entity impacting on its governance, behaviour, and performance. It therefore follows that an important on-going global issue for Listed Property Vehicle (LPV) stakeholders has been making sure that these vehicles adopt structures that will improve these attributes.

Historically, New Zealand LPVs, which are similar to REITs, have adopted either a unit trust structure or a company structure. More recently, the vehicles structured as trusts have been converting to an incorporated company structure - despite the immense conversion costs. It would seem that the underlying decision to do this was to remain in favour with investor preferences. However, despite the importance of the ownership structure decision and the costs involved in restructuring, there is a lack of longitudinal knowledge about the how the trusts and companies have contributed to the value of the NZX Property Sector. This study attempts to address this issue by examining the composition (types of ownership structures) and significance (market capitalisation) of the New Zealand Stock Exchange (NZX) Property Sector over time. First, this study has determined how the composition has changed between April 1982 and November 2013; and secondly, the significance of the NZX Property Sector and its changing underlying ownership structures (the trusts and companies) between December 1993 and November 2013.

Results obtained illustrate the significant extent of the changes to the NZX Property Sector’s composition (number of trusts and companies) over the past thirty years. These findings suggest that changes to the composition have been largely influenced by economic conditions. This is consistent with the literature which reveals that after the SMC (1987) three major companies had failed hence trusts emerged in 1993 and that after the GFC (2007), due to the trusts falling out of favour with investors, a number of conversions took place. Results in this study support these observations, and also bridge the information gap between these key crises - revealing the extent of the compositional changes between these dates.

The study also found that over the past twenty years the significance (based on the index market capitalisation) of the NZX Property Sector has grown (from approximately 1.3% to 8.8% of the value of the NZX: peaking in June 2012 at 11.4%) and that the trusts and companies have made different contributions to the value of this sector. These findings also suggest that the key economic crises have impacted on the dominance of one ownership structure over another, during this time. Initially it was found that the companies contributed more to the value of the NZX Property Sector. However after January 2000 the trusts began to dominate this Sector, with their contribution peaking at approximately 90% between 2006 and 2010, before falling back to 50% in June 2013, as a result of three trusts converting to companies. Nowadays the companies have regained their dominance.

These findings provide investors, the government, LPVs, and other stakeholders with a better understanding of the historical composition and significance of the NZX Sector. The evidence presented assists stakeholders in making future ownership decisions and also may also validate past restructuring decisions. Findings contained herein could be further complemented by additional analysis of the sector examining whether the trusts and companies listed under the NZX Property Sector have performed differently over the same period.

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