

Retail Market Studies for the Capital Market: Form versus Substance

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Introduction

- Each REIT initial public offering (IPO) requires a prospectus to be filed with the Securities Commission and the Stock Exchange.
- The prospectus provides details about the REIT investment offering for sale to the public. A prospectus will contain the facts that an investor needs to make an informed investment decision.

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- Apart from the information on the offeror, the properties, the managers, the trustees, the trust deed etc other important information such as valuation certificates, proforma balance sheet, profit forecast and taxation are provided in the appendix of the prospectus.

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- The **supply and demand** condition of the property market and the attractiveness of the property portfolios are among the key factors that investors evaluate before deciding to invest in the initial public offerings of real estate investment trusts (REITs).

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- A **real estate market study report** is often provided within the prospectus for the purpose of initial public offering (IPO) and listing on the stock exchange to meet this information need.




Objectives


- This research will examine whether these reports/studies meet the investment requirements of the REIT investors.




RESEARCH METHODOLOGY AND DATA

- A literature review is carried out to find out the weaknesses of real estate market studies. Ting (2007) has summarized the criticisms of market studies under four major stages in carrying out a market study i.e. **data collection, data analysis, analytical techniques and evaluation.**

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- These four major stages are adopted to facilitate a systematic analysis of the content of a real estate market study report.


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- The technique of **content analysis** is applied to examine the contents of market study reports found in the REIT IPO prospectuses for the 2005 to 2013 period.


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- To aid content analysis, words, sentences, paragraphs, tables and figures relating to retail market prospects are used to examine the adequacy of the retail market studies whether they satisfy the objectives of these reports.



- **Scope of research:**

As the retail market is a more complex property sector that requires detailed analysis, only the market study reports that covered the retail market are analysed for this research.

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- **To examine the ‘form’ aspect of the retail market studies, major topics/headings of these reports are collected and to be evaluated against the market study reports.**

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- To examine the ‘substance’ of these studies, the strengths and weaknesses of these studies are evaluated against the list of criticisms by Ting (2007).


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- Out of the 15 prospectuses issued during the study period, only six contain retail market study reports (refer Table I).

Table 1: Selected REIT prospectuses for content analysis

REIT	Issue date of IPO prospectus	No. of States covered in report on retail sector	Property Sector covered in market study	No. of pages of market study report
1. Starhill	22.5.2005	KL	Retail, office, hotel	111 (57) ¹
2. Hektar	15.11.2006	Selangor, Malacca	Retail	85 (53)
3. Sunway	15.6.2010	Selangor, Penang, Perak	Retail, office, hotel	159 (58)
4. CMMT	28.6.2010	KL, Selangor, Penang	Retail	57 (38)
5. Pavillion	14.11.2011	KL	Retail	63 (33)
6. IGB	27.8.2012	KL	Retail	63 (45)

Note: 1 – The figures in bracket represent the number of pages dedicated to retail property market and retail centre analyses.

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June 2014

15

Analysis

- For analysis, the respective market study reports are coded and arranged randomly to avoid possible identification of the property consultancy firms that prepare the reports. Table 2 shows the results of the analysis.

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June 2014

16

Table 2: Analysis of general contents of retail market studies in REIT prospectuses

Note : √ - denotes available; X - denotes not available

Topics	Study 1	Study 2	Study 3	Study 4	Study 5	Study 6
National economic overview & outlook	√	√	√	√	√	√
State/regional economic overview & outlook	√	√	√	√	√	√
Demand analysis: Existing	√	√	√	√	√	√
Supply analysis: Existing	√	√	√	√	√	√
Future	√	√	√	√	√	√
Rental analysis and trends	√	√	√	√	√	√
Occupancy rates and trends	√	√	√	√	√	√
REIT portfolio review: Locational analysis	√	√	√	√	√	√
Trade area analysis	X	√	√	√	√	√
Performance analysis	√	X	√	X	√	√
SWOT analysis	√	√	√	√	√	√
Comparative retail centre assessment	X	√	√	√	√	√
Outlook and future prospects	√	√	√	√	√	√

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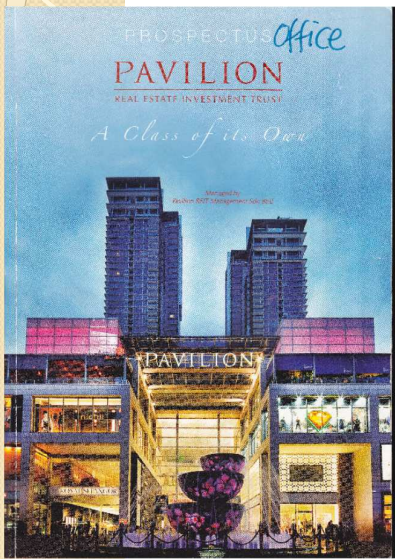
17

- From Table 2, we can conclude that the form and the general contents of the retail market studies are generally the same.
- But some aspects of retail market analysis are not covered:
 - Trade area analysis
 - Performance analysis
 - Comparative retail centre assessment

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18

Adequacies of retail market information for investment decision making – the ‘substance’ aspect: Number of pages devoted for retail mkt analysis 33 – 58 pages



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19


Table 3: Criticisms on retail market studies for REIT IPOs


Note : √ - denotes weaknesses found in report


Weaknesses	Report 1	Report 2	Report 3	Report 4	Report 5	Report 6
Data Collection Unreliable, incomplete, outdated data						
Data analysis Irrelevant data analysis Unexplained statistics Unspecified assumptions Unsupported opinions, geographical leap Lack of psychographics		√	√	√ √ √ √	√	√
Analytical techniques Retail trade area delineation SS & DD not analysed according to -Market segmentation -Future prospects -No future demand projections No capture rate		√ √ √	√ √	√ √ √	√ √	√ √
Evaluation Unsupported conclusions No conclusion				√		

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20

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- **Table 3 shows there are distinctive weaknesses in the retail market studies at two levels i.e. individual studies and common weaknesses among studies.**


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- **At individual report level, two of the reports have significant weaknesses and the balance four are well prepared.**


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- The common weaknesses among the market studies are:
 - (a) unspecified assumptions
 - (b) lack of future demand projections;
and
 - (c) no capture rate.



Examples of unspecified assumptions are:

- For the primary and secondary trade areas, distance and travel time are not specified,
- The primary and secondary trade area are circular in shape,
- The existing demand factors are assumed to extend into the future.


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- Facts and figures on existing and future supply are usually provided.
 - Existing supply and demand situations are often analysed using occupancy rate.
 - However there are no projections provided for future demand. With the lack of analysis between future supply and demand, the conclusion made on the future prospects of the shopping centres in the report is questionable.


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- The capture rate of each shopping centre is not specified in the studies.
 - It is assumed to remain constant and is not affected by new shopping centres coming into operations and within the trade area.
 - This omission may seriously affect the reliability of the conclusions of the reports.





CONCLUSION

- Content analysis using the criteria is applied to examine whether there are weaknesses in the retail market studies. The analysis found that the general headings and contents of these retail market studies are generally the same.

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- However a detailed content analysis reveals that there are weaknesses in the areas of data analysis and analytical techniques of these retail market studies.

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- Hence the generally broad headings (i.e. form) found in the content of a market study may not necessarily provide enough information/data (i.e. substance) to assist investors in making their investment decisions.

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- In conclusion, the retail market studies found in REIT IPO prospectuses need to be read in detailed to ensure the conclusions made are well founded and based on proper analysis of facts and figures.

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- Before making any investment decisions, a critical reading of the reports particularly the implicit assumptions made will help investors to conclude whether there is any sustainable prospect in the shopping centres owned by the REITs.



Thank you

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