

# Activism on Sale and Leaseback of Corporate Real Estate

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This study aims to investigate how activism influence the sale and leaseback (SLB) of corporate real estate. Activist investors have been playing an increasingly important role in capital market and bringing about profound changes in the way the corporate world operates. The real effects of activism has been widely studied. Earlier studies suggest ineffective results of institutional investor activism (e.g., Karpoff (2001), Gillan and Starks (2007)). Later studies appear to be relatively unequivocal on that hedge fund activism can generate significant positive financial and real effects on target firms (e.g., Brav et al. (2008), Brav et al. (2010), Bebchuk et al. (2015)). However, the mechanisms of value creation have not been deeply investigated. This research sheds light on the material sale-leaseback transaction of corporate real estate, a major approach many hedge fund activists employed to boost shareholder value, and has not been studied yet. I use hand-collected data to investigate determinants of firms being targeted for SLB, the role of activism intervention, and profound implications of these corporate real estate events.

It is a fresh wave that activist investors motivate target firms to unlock or monetize real estate assets. Firms that own the real estate assets such as restaurants, casinos, health clubs, hospitals, and even media companies have been targeted by these hedge fund activists. As a result, hedge fund activists have an incentive to exercise their influence to encourage individual firms to release capital through SLB transactions of real estate. SLBs are generally material that produce a profound change in the income statement and balance sheet of the firm, and would be important information for a reasonable investor in making investment decisions. It is therefore crucially important to address a critical gap in existing shareholder activism knowledge manifested by the absence of exploring SLBs of corporate real estate. The objective of this paper is to investigate the underlying mechanism of such a phenomenon – how investor activism affects SLBs of corporate real estate and the far-reaching impact on target firms' value (potentially including those unintended consequences).

Scholars have studied market reactions to announcements of activism and long-term benefits for shareholders of target firms (e.g., Brav et al. (2010), Bebchuk et al. (2015)). These

findings include but are not limited to positive abnormal returns around hedge fund activism announcement (e.g., Brav et al. (2008), Clifford (2008), Becht et al. (2009), Greenwood and Schor (2009), Klein and Zur (2009), Brav et al. (2010), Bebchuk et al. (2015), Becht et al. (2017), Boyson et al. (2017)), improved operating performance and financial and investment policies (Brav et al. (2017), Boyson et al. (2017)), greater tax avoidance and accounting conservatism (Cheng et al. (2012), Cheng et al. (2015)), and negative product market effects (profit margins, market shares, etc.) on the industry rivals of target firms (Aslan and Kumar (2016)). However, previous studies have shown no clear evidence as to the pattern of hedge fund activism shapes financing, operating, and managerial structure. Due to the unique institutional characteristics of SLB, we believe this setting could generate new insights in expanding the existing research on investor activism. I research on the following questions. First, does activism increase the probability of SLB? How do investor activists target firms? Are activists simply good at selecting potential target firms with SLB plans and investing in advance of real estate restructuring? Second, does restructuring real estate create value for target firms? What is the pattern of value variation around SLB announcement? Is the value creation confounded with endogenous issue that value is likely to be created for target firms? Third, if there is abnormal returns around SLB announcement, are the returns attributed to value creation by investor activism or do they simply reflect revaluation and optimized utilization of real estate assets? Does activists-proposed SLB make a difference from non-targeted SLB? I explore these questions in this study.

My study of activism on real estate SLB focuses on the US market. The US market for SLB is very transparent. Public firms must report SLB as material events to the SEC through Form 8K filings within four days. There is media coverage about most relevant news on SLB events. Data sources for SLB are available from SEC and Factiva database. Moreover, there is a market price for the assets involved on these deals (i.e., the real estate market). I begin with a comprehensive activism and leases data set of 185165 observations collected from Form SC 13D filings in SEC and Compustat. I find the strong association between activism presence and change of leases. Over 20683 firms are targeted by activism during 1995-2017. The evidence suggests that the presence of activism can increase the probability of a big change of leases of the target firm. I also confirm the following characteristics of targeted firms: higher market valuation and PP&E amount, lower leverage level, higher level of cash and short-term investments, higher payout dividends, non-distressful, lower rated and with higher marginal tax rates.

Next I examine the market reaction around SLB announcements based on a hand-collected data sample with 134 events during 2000-2017. There are significant positive abnormal returns around SLB announcement, consistent with prior studies of Slovin et al. (1990), Fisher (2004), and Grönlund et al. (2008). Moreover, I find significant negative abnormal returns before and after the announcement of SLB through two-week, one-month, and two-month event windows. I also find characteristics of higher sales level, higher cash level, higher payout dividends and higher PP&E amount of activism-targeted SLB firms compared with those of non-targeted SLB firms based on the SLB data sample.

For the following step, I will examine the pattern of market reaction to announcement of activism on SLB, and explore the possible mechanisms: what is the role investor activists plays in SLB process? How to explain the special market reaction process? Could this mechanism be used to clarify general activism actions on target firms?

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