

THE IMPACT OF INFORMATION TRANSPARENCY AND MARKET CAPITALISATION ON OUT- PERFORMANCE IN ASIAN PROPERTY COMPANIES

GRAEME NEWELL
University of Western Sydney

and

LIOW KIM HIANG, JOSEPH OOI and ZHU HAIHONG
National University of Singapore

ABSTRACT

With an increased emphasis on international property investment and an improved economic outlook for Asia, Asian property companies potentially provide an important property investment opportunity for international property fund managers. Using an information transparency index, 180 property companies in 10 Asian countries are assessed over 1997-2003 for their levels of information transparency. Whilst information transparency is seen to be important, market capitalisation is seen to be more significantly associated with Asian property company out-performance. Investing more in the larger property companies than the smaller property companies in Asia is seen to be a more effective property investment strategy for international property fund managers over this period.

Keywords: Information transparency, Asian property companies, out-performance, market capitalisation, international investors, investment strategy.

INTRODUCTION

In recent years, international property fund managers have been seeking property investment opportunities in the emerging property markets, including Asia. This reflects the recent studies highlighting the portfolio diversification benefits of including international listed property in a mixed-asset portfolio (Bond et al, 2003; Conover et al, 2002; Steinert and Crowe, 2001; Wilson and Okunev, 1996).

Listed property companies make a significant contribution to the market capitalisation of Asian stock markets (Newell and Chau, 1996; Steinert and Crowe, 2001). Similarly, listed property has become an increasingly important property investment vehicle in Asia (Steinert and Crowe, 2001), particularly through the success of REITs in the USA and LPTs in Australia, the recent establishment of equivalent REIT vehicles in Japan, Korea and Singapore, and the long-established track record of listed property companies in Asia (Chau et al, 2001). In particular, a number of leading fund managers are already actively involved in global property securities, including ING Clarion, LaSalle, Henderson, ABN Amro, Deutsche and BT, with industry sources predicting the global property securities market capitalisation will significantly increase from \$500 billion in 2004 to \$1 trillion by 2010.

Importantly, international diversification has been shown to be more effective in the Asian property markets than in the European property markets (Bond et al, 2003), as well as there being long-term diversification opportunities by investing in property companies in several countries in Asia (Garvey et al, 2001). As such, attention has been given to examining various aspects of property company performance in Asia (Bond et al, 2003; Garvey et al, 2001) and in specific Asian countries such as Singapore (Liow, 2001a, 2001b), Hong Kong (Chau et al, 2001, 2003; Newell and Chau, 1996; Schwann and Chau, 2003) and Australia (Newell and Acheampong, 2001).

While much of this Asian property company research has focused on performance analysis in specific Asian markets (eg: Singapore, Hong Kong) and the inter-relationship between the respective indirect and direct property markets, it is also important to assess the impact of property company management strategies on enhancing investment appeal and creating shareholder value for these listed property companies in Asia and adding value in international property funds.

In particular, property companies are legally required to publish annual reports, disclosing a range of facts and figures as a regulatory requirement. While varying levels of information are available, many property companies now provide significantly more than this minimum level of information by providing an enhanced and accessible investor relations service to ensure investors make informed investment decisions and their property company's operation is seen to be transparent and having the necessary investor information available. This level of corporate disclosure for Asian companies (not property-specific) has been shown to differ significantly across Asian countries (Craig and Diga, 1998; Ho and Wong, 2001; Mitton, 2002).

However, while some concerns have been raised over the adequacy of disclosure amongst Asian property companies (UBS, 2003b), there has been considerable improvement in the transparency of the Asian private and public property markets in recent years (JLL, 2004).

Using the JLL global property transparency index¹, Table 1 shows that the Asian property markets range globally from the most transparent markets (eg: Australia) to the least transparent markets (eg: Vietnam). Importantly, many of the Asian property markets have become significantly more transparent over 2001-04, reflecting the structural impact of the Asian financial crisis in 1997-98 (JLL, 2004).

Table 1: JLL global property transparency index 2004⁽¹⁾

Highly transparent (1.00-1.49):

Australia (1.19), New Zealand (1.19), United States (1.24), United Kingdom (1.24), Canada (1.37), Netherlands (1.37)

Transparent (1.50-2.49):

Hong Kong (1.50), Sweden (1.51), **Singapore (1.55)**, Germany (1.60), France (1.62), Finland (1.64), Switzerland (1.68), Ireland (1.82), Belgium (1.92), Denmark (2.01), Austria (2.08), Norway (2.15), Spain (2.19), **Malaysia (2.30)**, South Africa (2.37)

Semi-transparent (2.50-3.49):

Italy (2.73), Portugal (2.85), Czech Republic (2.88), Hungary (2.88), **Japan (3.08)**, **Taiwan (3.10)**, Poland (3.12), Mexico (3.14), Israel (3.21), Chile (3.24), Greece (3.31), Estonia (3.36), **South Korea (3.36)**, **Philippines (3.43)**, **Thailand (3.44)**

Low transparency (3.50-4.49):

Brazil (3.62), Russia (3.64), **China (3.71)**, Argentina (3.76), **India (3.90)**, Costa Rica (4.00), Columbia (4.10), **Indonesia (4.11)**, UAE (4.31)

Opaque (4.50-5.00):

Turkey (4.50), **Vietnam (4.60)**, Egypt (4.67), Saudi Arabia (4.67), Romania (4.71), Ukraine (4.86)

¹: Asian countries shown in bold

Source: JLL (2004)

¹ *The JLL global property transparency index assesses property transparency in 50 countries across the country's private and public property markets. The transparency index incorporates legal factors, regulatory burden, availability of information on market fundamentals, listed vehicle financial disclosure and governance, and availability of investment performance indices. The JLL transparency index ranges from 1.00 (highest transparency) to 5.00 (lowest transparency).*

These enhanced investor services now provided by property companies include improved annual report transparency, interactive websites and regular analyst meetings to enhance investment appeal (Brounen et al, 2001). The importance of this increased information transparency by listed property companies is widely acknowledged (Brounen et al, 2001). This is particularly significant for listed property companies in Asia, given the increasing levels of international investment in Asian property companies in recent years. This has been further emphasised in 2003 with the successful introduction of REIT vehicles in Singapore, Japan and Korea and the proposed introduction of REIT vehicles in Hong Kong and Taiwan in 2005 (UBS, 2003a). This has also been reinforced by recent property industry surveys indicating global property fund allocations significantly increasing over 2004-05, with survey respondents being bullish about property investment opportunities in Asia (UBS, 2003b), resulting from a positive outlook with accelerated growth for the Asian economies in 2005 (Prudential REI, 2004).

The resulting key investment issue for international property fund managers is whether these increased investor relation services are associated with improved property company stock performance, or whether other property company factors (eg: property company size, management quality) are more important influences. While Brounen et al (2001) has examined this issue for European property companies and found a positive correlation between information transparency and stock performance, the increasingly significant role of Asian property companies in international property funds also requires the critical assessment of this key investment issue for Asian property companies.

As such, the specific objectives of this research are:

- (i) to develop an enhanced “information transparency score” methodology to assess information availability and transparency for the investor relation services provided by Asian property companies
- (ii) to assess the level of information transparency for 180 property companies in ten (10) Asian countries over 1997–2003; these countries include Singapore, Malaysia, Hong Kong, Thailand, Japan, Indonesia, China, Philippines, Australia and New Zealand²
- (iii) to assess whether increased investor relation services are associated with improved risk-adjusted property company stock performance
- (iv) to assess whether information transparency differences exist across Asian countries and for different size property companies

² *In the context of “Asia” for this paper, both Australia and New Zealand are also included to ensure coverage and benchmarking information transparency against these more mature and established property markets.*

- (v) to assess the investment implications for international property fund managers concerning investing in Asian property companies.

METHOD

Information transparency score

Brounen et al (2001) developed an information transparency score procedure for assessing the information transparency for European property companies; this involved 218 European property companies in 15 European countries. This procedure involved 27 criteria in the areas of annual report transparency (14 criteria), corporate website clarity (9 criteria) and analyst coverage (4 criteria). Each criteria was scored on a 0-4 scale, in order of increasing information availability. Scores were aggregated across the 27 criteria, then standardised to a range of 0-100 to reflect an overall information transparency score. The criteria used in this study (see next section) are based on the Brounen et al (2001) criteria, but modified as needed for the Asian property companies; this saw 30 criteria used in this study. The relevant information transparency criteria details were obtained from the respective Asian property company annual reports and websites.

Asian countries assessed

Ten Asian countries were assessed in this study; Hong Kong, Singapore, Malaysia, Thailand, Japan, Indonesia, China, Philippines, Australia and New Zealand. For each country, the sample of property companies was obtained from Datastream; to be eligible for inclusion, a property company had to have its latest annual report in English or an English corporate website or both.

From over 350 property companies originally selected, this resulted in 180 property companies being fully assessed for information transparency, of which 146 (81.1%) had both the annual report and corporate website in English, 22 (12.2%) had an annual report but no corporate website and 12 (6.7%) only had a corporate website. The number of property companies from each country was:

- Australia: 43
- Singapore: 18
- China: 8
- Japan³: 2,
- Malaysia: 40
- Philippines: 12
- Indonesia: 7
- Hong Kong: 36
- Thailand: 8
- New Zealand: 6

³ *Japan is under-represented; particularly considering the role of property in the Japanese economy compared to other countries. From the initial 61 Japanese firms identified from Datastream, only two firms had English annual reports and an English corporate website.*

with an information transparency score developed for each of these 180 property companies and 10 countries. The total market capitalisation of these 180 Asian property companies was in excess of US\$105 billion.

Data sources

Monthly total returns for each of the 180 property companies over the period of January 1997 – April 2003 were obtained from Datastream. Local risk-adjusted performance measures used the stock market indices for the respective countries to proxy the market return⁴. 90-day bills for each country were used as the respective risk-free rate.

Assessing property company out-performance

The time-varying Jensen alpha abnormal return index was used as an indicator of the historic risk-adjusted property company performance. The Jensen index is calculated from the CAPM:

$$(R_{i,t} - R_f) = \alpha_i + \beta_i (R_{m,t} - R_f) + \varepsilon_i$$

where: $R_{i,t}$ = return of property company i for period t
 R_f = risk-free rate of return for period t
 $R_{m,t} - R_f$ = market risk premium for period t
 β_i = systematic risk of stock i
 α_i = Jensen's alpha.

RESULTS AND DISCUSSION

Information transparency score

The Brounen et al (2001) information transparency methodology involving 27 criteria was modified for the Asian property companies. 30 information transparency criteria were identified, involving annual report transparency (17 criteria), corporate website clarity (9 criteria) and analyst coverage (4 criteria). Details of the 30 information transparency score criteria are shown in Table 2.

⁴ *International risk-adjusted performance analysis was also conducted, using the MSCI world index as the proxy for the market return; for the purposes of brevity, the results are not presented in this paper.*

Table 2: Information transparency score criteria

Annual report

1. Is the annual report published in the domestic language or in English?
2. Is there a mission statement in the annual report?
3. Is there a future outlook of the market and the company?
4. Does the company provide efficiency indicators (ROA, ROE, etc)?
5. Does the company provide segment analysis?
6. Is information available on the composition and background of firm management?
7. Is information available on the address of each property?
8. Is information available on the usage of each property?
9. Is information available on the occupancy rate of the property?
10. Is information available on the site area of the property?
11. Is information available on the tenure of the property?
12. Does the annual report contain contact information?
13. Is rental income specified by location and property type?
14. Does the company provide methods of property valuation?
15. Does the company provide depreciation methods?
16. Is there a clear dividend policy?
17. Is information detailed on the shareholders?

Website information

1. Is there a corporate website?
2. Is the corporate website available in the domestic language and/or English?
3. Is a financial calendar available online?
4. Is the corporate website highly detailed?
5. Is stock quote information available?
6. Is the website being updated?
7. Is investor relationship contact information easily accessible?
8. Is there property information online?
9. Is their annual reports online?

Analyst coverage

1. Are many analysts following the stock?
 2. Do many leading investment banks follow the stock?
 3. Is there high consensus among the analysts?
 4. Do the analyst forecasts match reality?
-

Of the three information transparency categories, annual report transparency had 17 criteria covering both the quantity and quality of published information such as mission statement, company management, property assets and portfolios, segment analysis and efficiency indicators. Since the annual report has been the traditional means by which companies communicate to investors and analysts, it is important for property companies to disclose comprehensive and up-to-date information regarding the current values, composition and performance of their property portfolios to users of accounts. As such, eight criteria to assess whether or not the annual reports provide details regarding the address, usage, occupancy rate, site area, tenure, rental income, valuation and depreciation of the properties were also assessed.

The corporate internet sites provide management with additional opportunities to access all investors and to supply daily updates of important information. Nine criteria to assess the existence and clarity of the information content of the various corporate websites were included. The nine criteria cover the availability of an English website and whether the site includes information such as the annual report, company financials, stock quotes, property portfolios and investor relationship contact information; and finally, whether the site is being updated regularly.

The four criteria for analyst coverage assessed the extent of how actively analysts followed the specific property company, with this independent analysis being fundamental to significant levels of institutional investor support. Of the three information transparency categories, analyst coverage was the most difficult to assess, given the variation in market maturity across the ten Asian countries and analyst coverage not being included in the standard disclosure regulatory requirements.

Compared to the Brounen et al (2001) European study criteria, the criteria differences for the Asian property companies used in this study were in the annual report category. First, two questions: “Is rental income specified by property type?” and “Is rental income specified by location?” in the European study are merged into Q13 in this study. Second, four additional information items relating to annual report transparency were added. These four criteria were also included in the Standard & Poor’s transparency and disclosure study and correspond to the analytical criteria employed in the Standard & Poor’s corporate governance scoring process (Patel and Dallas, 2002). These are Q4 (Does the company provide efficiency indicators?); Q5 (Does the company provide segment analysis?); Q14 (Does the company provide methods of property valuation?) and Q15 (Does the company provide depreciation methods?). Q4 is included as investors need to have information regarding financial ratios such as ROA and ROE to assess the corporate performance. Q5 is included as many Asian property companies are diversified conglomerates; hence it is important for investors to know the relative profitability of the different business segments. The last two questions (Qs 14 and 15) are relevant to many Asian property stock markets where listed property companies are permitted to practice “modified historical cost accounting” and the valuation methods could be different, depending on the types and uses of the properties. As such, information on methods of

property valuation and resultant depreciation amounts will help investors to understand how the “balance sheet values” of properties are derived.

Each of the 30 criteria is scored from 0-4 in order of increasing information availability. Scores are on a 0-4 scale and aggregated across the 30 information transparency criteria, then standardised to a range of 0-100 to reflect an overall information transparency score for each property company. Separate standardised scores of 0-100 were also determined for each of the three categories of annual report, website information and analyst coverage. Information transparency scores are also presented for each of the ten Asian countries.

Information transparency analysis

Using this 30 criteria information transparency scoring procedure, Table 3 presents the average overall information transparency score and the average category scores for annual report, corporate website clarity and analyst coverage for the 180 Asian property companies. The average overall score of 43.5 was comparable to the European average overall score of 43.8 from 218 European property companies (Brounen et al, 2001). The average category scores (each on a 0-100 scale) for the 180 Asian property companies (and European equivalents) were:

- annual report: 49.1 (Europe = 57.6)
- website: 44.9 (Europe = 40.9)
- analyst coverage: 16.8 (Europe = 24.5),

with the priority order of the three categories being the same for both Asian and European property companies.

These category results suggest that the annual report is still the most common and most widespread mode of information dissemination for Asian property companies. However, Asian property companies are less willing to disclose more than the regulatory annual report requirements than the European property companies. The corporate website was next in importance for Asian property companies and was more significant than for the European property companies. Its importance is likely to increase in the Asian property stock markets with technological advances and a greater need for corporate information transparency required by foreign institutional investors who wish to gain exposure in Asian property markets. The analyst coverage category showed the poorest results and below that seen for European property companies, because many Asian property companies need more time to develop significantly to attract analysts’ attention.

Table 3: Information transparency scores by country*

Country	Number of property companies	Overall score	Annual report score	Website score	Analyst coverage score
Hong Kong	36	52.6(1)	59.5(2)	54.0(3)	19.8(5)
Singapore	18	51.2(2)	60.2(1)	46.5(5)	23.3(3)
New Zealand	6	46.0(3)	46.0(5)	62.0(1)	9.4(7)
Australia	43	45.7(4)	47.4(4)	53.0(4)	22.0(4)
Japan	2	45.4(5)	38.2(7)	59.7(2)	43.8(1)
Malaysia	40	42.8(6)	55.2(3)	32.4(9)	8.9(8)
Thailand	8	39.4(7)	38.9(6)	40.6(6)	34.4(2)
Philippines	12	32.1(8)	32.6(9)	36.6(8)	10.2(6)
China	8	26.8(9)	34.2(8)	21.9(10)	6.3(9)
Indonesia	7	13.6(10)	4.2(10)	37.3(7)	0.0(10)
Total	180	43.5	49.1	44.7	16.8

*: Scores for each category are on scale of 0-100, with overall score being the weighted average of the three category scores, weighted by the number of criteria per category.

Table 3 also presents the average overall score and average category scores for the ten Asian countries. Overall information transparency scores ranged from Indonesia (13.6) to Hong Kong (52.6), with the more established Asian stock markets of Hong Kong (52.6), Singapore (51.2), New Zealand (46.0) and Australia (45.7) dominating the ten Asian countries. The validity of this information transparency procedure is further confirmed by the information transparency rankings of the ten countries compared to the respective JLL property market transparency rankings having a rank correlation of 0.85. Equivalent European information transparency scores were France (37.1), Germany (34.0), UK (49.0) and Netherlands (52.7) (Brounen et al, 2001). Only Hong Kong and Singapore exceeded the average overall score and each of the average category scores, with only Ireland, Netherlands and UK achieving this amongst the European countries (Brounen et al, 2001). Philippines, China and Indonesia underperformed for the overall score and each of the three categories.

Based on their information transparency scores, Table 4(Panel A) lists the top 20 Asian property companies. Hong Kong (7), Singapore (7), Australia (4) and Malaysia (2) dominate the top 20, with Singapore's CapitaLand (81.7), Kerry Property (80.0) from Hong Kong and Keppel Land (76.7) from Singapore being the top 3 Asian property

companies. To assess the percentage representation in the top 50 amongst the Asian countries, Table 4(Panel B) shows Hong Kong (56%) and Singapore (50%) having the highest representation in the top 50 from their respective sample of property companies.

Table 4: Asian property company information transparency analysis

Panel A: Top 20 Asian property companies*

1. CapitaLand (S:81.7)	11. Hang Lung (HK: 68.3)
2. Kerry Property (HK: 80.0)	11. Singapore Land (S: 68.3)
3. Keppel Land (S:76.7)	11. MCL Land (S: 68.3)
4. Cheung Kong (HK: 75.0)	11. Ascott (S: 68.3)
4. IOI Properties (M: 75.0)	15. Macquarie Goodman Ind. (A: 67.5)
6. Great Eagle (HK: 72.5)	16. CFS Gandel Retail (A: 66.7)
7. City Development (S: 71.7)	16.Henderson Development (HK: 66.7)
8. AMP Shop. Centre Trust (A: 70.0)	18. Hysan Development (HK: 65.8)
8. United Overseas Land (S: 70.0)	18. HKR International (HK: 65.8)
8. Glomac (M: 70.0)	18. AMP Office Trust (A: 65.8)

Panel B: Top 50 Asian property companies: country analysis

Hong Kong: 20 (56% of HK property companies assessed)

Singapore: 9 (50% of Singapore property companies assessed)

Australia: 16 (37% of Australian property companies assessed)

Malaysia: 4 (10% of Malaysian property companies assessed)

Thailand: 1 (13% of Thailand property companies assessed)

*: values in brackets represent country codes and property company information transparency score.

INFORMATION TRANSPARENCY AND PROPERTY COMPANY OUT-PERFORMANCE

To assess whether higher information transparency scores are associated with improved risk-adjusted property company out-performance, Jensen's alpha was calculated for each of the 180 Asian property companies. Table 5 presents the correlations between the information transparency category scores and this measure of property company out-performance. Correlations ranged from .11 to .20, with the correlation between overall information transparency and the risk-adjusted out-performance being .18, confirming higher information transparency scores being associated with property company out-performance. The positive correlations with the information transparency categories and out-performance were significant in most instances. These positive correlations were comparable to those obtained for the European property companies (Brounen et al, 2001).

Table 5: Correlations between information transparency category scores, risk adjusted out-performance and market capitalisation

Categories	Jensen's alpha	Market capitalisation (US\$)
Annual report	.20**	.35*
Website	.11	.38*
Analyst coverage	.20**	.63**
Overall	.18*	.52**

*: $P < 5\%$

** : $P < 1\%$

This link between information transparency and out-performance may still be important to fund managers, even if it is not a causal relationship. Good disclosure might be a sign of superior performance; if nothing more, this supports the reluctance of fund managers to invest in property companies with poor levels of disclosure.

Impact of market capitalisation on information transparency

These positive correlations between information transparency and out-performance might also be influenced by a property company size effect, as the larger property companies typically have more resources available to finance greater investor relation activities and efforts, and hence have the resources to afford a high level of information transparency. As such, a cause-effect relationship can not be directly established, but rather whether there is an association between these two factors and property company out-performance. Another possible contributing factor is management quality, with the larger property companies being able to afford better management which can grow the property company

through reliably delivering superior management of properties and projects, and hence enhance overall out-performance. This out-performance may also lead to better information disclosure, as property companies may seek to highlight their successes to investors.

To assess this possibility of a property company size effect, Table 5 presents the correlations between the information transparency scores and company size, measured as property company market capitalisation. Correlations ranged from .35 - .63, with overall information transparency having a correlation of .52 with market capitalisation. These Asian property company size effect correlations were significantly larger than those seen for European property companies, which ranged from .17 to .30 (Brounen et al, 2001).

Overall, these results imply information transparency and property company size are two significant factors associated with risk-adjusted out-performance for Asian property companies. To assess this issue more precisely, the multiple regression:

$$\text{Out-performance} = f(\text{information transparency score, market capitalisation})$$

was assessed for the 180 Asian property companies. Table 6 presents these multiple regression results. The impact of market capitalisation on out-performance is significant, with information transparency not being significant. This lesser effect of information transparency after accounting for market capitalisation is likely to be related to the larger property companies having better disclosure. The impact of market capitalisation on out-performance for the Asian property companies was more important than for the European property companies (Brounen et al, 2001), where information transparency was also more highly associated with out-performance, after accounting for market capitalisation.

Table 6: Impact of market capitalisation and information transparency on out - performance in Asian property companies

Factors	Regression coefficients
Intercept	-.025
Market capitalisation	.007**
Information transparency	-.005
R ²	.103

** : P < 1%

Overall, for the Asian property companies, higher information transparency is associated with creating shareholder value, but this effect is weakened when market capitalisation is accounted for. This results from the larger property companies being more capable of deriving such economic benefits than the smaller property companies through more intensive investor relations activities. This result indicates that market capitalisation is likely to be a more significant influence on Asian property company out-performance. Hence, investing more in the larger property companies than the small property companies in Asia is seen to be a more effective property investment strategy for international property fund managers over this period of 1997-2003.

Individual country analysis

To assess specific Asian country differences, information transparency analyses were also conducted for each of the ten Asian countries. Table 7 presents the composite picture regarding the association between information transparency and out-performance across the ten Asian countries, with clear differences across the ten Asian countries, largely reflecting the maturity of the property markets in specific Asian countries. After adjusting for market capitalisation, information transparency was only seen to be significantly associated with out-performance in China, with this result for China likely to be influenced by the smaller number of China property companies used in the analysis. This result again confirms the more significant association between market capitalisation and property company out-performance in specific Asian countries, including Hong Kong and Australia, and the selection of the larger property companies in Asia as the more effective investment strategy for international property fund managers over this period of 1997-2003.

ACCURACY OF DISCLOSED PROPERTY COMPANY INFORMATION

As shown in Table 1 previously, considerable differences exist concerning the level of private and public property market transparency amongst the Asian countries (JLL, 2004). While the Asian property company information disclosed forms the basis for the information transparency scores in this study, there was no ability to directly check that this reported property company information was correct.

As a proxy for information “correctness”, the Transparency International Corruption Perceptions Index was used for each Asian country (Transparency International, 2003). This corruption perceptions index ranges from 0 (highly corrupt) to 10 (highly clean), with indices given for 102 countries using 15 different polls and surveys from nine independent institutions⁵ carried out amongst the business sector and country analysts.

⁵ *Institutions include Economist Intelligence Unit, Information International, Institute for Management Development, Multinational Development Bank, Pricewaterhouse Coopers, Gallup International, World Economic Forum, World Markets Research Centre, World Bank.*

Table 7: Individual country analysis: summary*

Country	Significant correlation between information transparency and out-performance	Significant correlation between information transparency and market capitalisation	Regression analysis	
			Significance of information transparency	Significance of market capitalisation
Hong Kong (36)	✓	✓	✗	✓
Singapore (18)	✗	✓	✗	✗
Australia (43)	✓	✓	✗	✓
Australian LPTs (18)	✗	✗	✗	✓
Malaysia (40)	✗	✗	✗	✗
Philippines (12)	✗	✗	✗	✓
New Zealand (6)	✗	✓	✗	✗
Thailand (8)	✗	✗	✗	✗
China (8)	✗	✗	✓	✗
Indonesia (7)	✗	✗	✗	✗
Overall	✓	✓	✗	✓

*: Japan was excluded from country analysis as only two property companies are available.

Table 8 presents these corruption perceptions indices for the various Asian countries and other leading countries.

In assessing the effect of incorporating this proxy for information “correctness” in the previous out-performance regression models, market capitalisation is still seen to be the major association with out-performance for Asian property companies.

Table 8: Transparency International Corruption Perceptions Index 2003⁽¹⁾

Finland : 9.7	Israel : 7.0	Poland : 3.6
Denmark : 9.5	Japan : 7.0	China : 3.4
New Zealand : 9.5	France : 6.9	Thailand : 3.3
Singapore : 9.4	Spain : 6.9	Egypt : 3.3
Sweden : 9.3	Taiwan : 5.7	Turkey : 3.1
Netherlands : 8.9	Italy : 5.3	India : 2.8
Australia : 8.8	Malaysia : 5.2	Russia : 2.7
Switzerland : 8.8	UAE : 5.2	Argentina : 2.5
Canada : 8.7	Saudi Arabia : 4.5	Philippines : 2.5
UK : 8.7	South Africa : 4.4	Vietnam : 2.4
Austria : 8.0	Greece : 4.3	Indonesia : 1.9
Hong Kong : 8.0	South Korea : 4.3	Kenya : 1.9
Germany : 7.7	Brazil : 3.9	Georgia : 1.8
Ireland : 7.5	Czech Republic : 3.9	Nigeria : 1.4
USA : 7.5	Mexico : 3.6	

¹ Asian countries shown in bold

Source: T1 (2003)

PROPERTY IMPLICATIONS

Whilst past performance is no guarantee of future performance trends, this paper has provided a comprehensive analysis of the association between information transparency and market capitalisation with out-performance for 180 property companies in ten Asian countries. Importantly, after accounting for market capitalisation, it is generally found that information transparency is not significantly associated with out-performance. Market capitalisation is seen to be more significantly associated with out-performance, with larger property companies being more capable of deriving economic benefit than smaller property companies.

As such, higher levels of information transparency amongst Asian property companies are not necessarily associated with better property company out-performance; especially for

the smaller property companies. These results for Asian property companies are in marked contrast to the equivalent European study (Brounen et al, 2001), in which information transparency was still seen to be significantly associated with out-performance, even after accounting for market capitalisation.

In developing this study, several limitations were evident. Firstly, Asian property companies were only considered if they had English annual reports and/or English websites. While the reporting of property company information in English is obviously a key factor in terms of international institutional investment support, it may not be an effective strategy for fully assessing information transparency; hence the need for translation of annual report and website materials where English is not the dominant language, with this being the case for Japan and for some of the less developed Asian countries. While an English “converter” is available for many Asian property company websites, the translation of the annual report/website information would provide a fuller assessment of the information transparency issues; this would have also seen a much fuller representation of Japanese property companies in this study.

Secondly, limited information is available regarding analyst coverage, with the information being scattered and not easily available; hence, the lesser scores against this criteria, compared to the more readily accessible annual report and website information. Finally, other factors may also influence this property company out-performance; these factors include profitability, degree of leverage and dividend pay-outs.

Overall, the results indicate that information transparency does not have a significant association with Asian property company out-performance. The more significant association with out-performance in Asian property companies is seen to be market capitalisation, with this result having significant implications concerning the most effective investment strategy for international property fund managers for incorporating Asian property companies in their property investment portfolios. Investing more in the larger property companies than the smaller property companies in Asia is seen to be the more effective property investment strategy over this period.

ACKNOWLEDGEMENT

The authors acknowledge the generous assistance of NUS in providing the necessary research funding for this project.

REFERENCES

Bond, S., Karolyi, A. and A. Sanders, International Real Estate Returns: a Multifactor, Multicountry Approach, *Real Estate Economics*, 2003, 31, 481-500.

- Brounen, D., Cools, T. and M. Schweizer, Information Transparency Pays: Evidence from European Property Shares, *Real Estate Finance*, 2001, Summer, 39-49.
- Chau, K.W., MacGregor, B. and G. Schwann, Price Discovery in the Hong Kong Real Estate Market, *Journal of Property Research*, 2001, 18, 187-216.
- Chau, K.W., Wong, S.K. and G. Newell, Performance of Property Companies in Hong Kong: a Style Analysis Approach, *Journal of Real Estate Portfolio Management*, 2003, 9, 29-44.
- Conover, M., Friday, S. and S. Sirmans, Diversification Benefits from Foreign Real Estate Investment, *Journal of Real Estate Portfolio Management*, 2002, 8, 17-26.
- Craig, R. and J. Diga, Corporate Accounting Disclosure in ASEAN, *Journal of International Financial Management and Accounting*, 1998, 9, 246-274.
- Garvey, R., Santry, G. and S. Stevenson, The Linkages Between Real Estate Securities in the Asia Pacific, *Pacific Rim Property Research Journal*, 2001, 7, 240-258.
- Ho, S. and K. Wong, A Study of Corporate Disclosure Practice and Effectiveness in Hong Kong, *Journal of International Financial Management and Accounting*, 2001, 12, 75-102.
- Jones Lang LaSalle, *Global Real Estate Transparency Index 2004*, JLL, Hong Kong, 2004.
- Liow, K.H., Corporate Financial Reporting of Singapore Property Companies: Issues and Evidence, *Journal of Financial Management of Property and Construction*, 2000, 5, 149-158.
- Liow, K.H., The Long-Term Investment Performance of Singapore Real Estate and Property Stocks, *Journal of Property Investment and Finance*, 2001a, 19, 156-174.
- Liow, K.H., The Abnormal Return Performance of Singapore Property Companies, *Pacific Rim Property Research Journal*, 2001b, 7, 104-112.
- Mitton, T., A Cross-Firm Analysis of the Impact of Corporate Governance on the East Asian Financial Crisis, *Journal of Financial Economics*, 2002, 64, 215-241.
- Newell, G. and P. Acheampong, The Dynamics of the Australian LPT Market Risk and Correlation Profile, *Pacific Rim Property Research Journal*, 2001, 7, 259-270.
- Newell, G. and K. W. Chau, Linkages Between Direct and Indirect Property Performance in Hong Kong, *Journal of Property Finance*, 1996, 7, 9-29.

Patel, S. and G. Dallas, *Transparency and Disclosure: Overview of Methodology and Study Results*, Standard and Poors, 2002.

Prudential Real Estate Investors, *2004 Asian Market Outlook*, Prudential REI, New Jersey, 2004.

Schwann, G. and K.W. Chau, News Effects and Structural Shifts in Price Discovery in Hong Kong, *Journal of Real Estate Finance and Economics*, 2003, 27, 257-271.

Steinert, M. and S. Crowe, Global Real Estate Investment: Characteristics, Portfolio Allocation and Future Trends, *Pacific Rim Property Research Journal*, 2001, 7, 223-239.

Transparency International, *Transparency International Corruption Perceptions Index 2003*, TI, Berlin, 2003.

UBS, *Real Estate Global Analyser*, UBS, Sydney, 2003a.

UBS, *2003 Global Real Estate Survey Results*, UBS, Sydney, 2003b.

Wilson, P. and J. Okunev, Evidence of Segmentation in Domestic and International Property Markets, *Journal of Property Finance*, 1996, 7, 78-97.