

Bridgette Adams, Finance & Banking

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Externally advised real estate investment trusts

Bridgette Adams & John Howe

Real estate investment trusts (REITs) are companies that invest in real estate, which can be commercial, residential, health-related, etc. Because REITs pay out at least 90% of their profit in dividends they do not have to pay corporate tax. In order for REITs to operate efficiently they hire advisors to find, evaluate, and manage their properties. In general, REITs have the option of hiring internal or external advisors. External advisors are separate companies that can manage properties for more than one REIT. On average over the last 30 years, REITs that use external advisors have performed 6% worse per year, compared to REITs with internal advisors. In my research I examined the idea that compensation schemes change depending on the type of assets being managed. In order to do this I looked at quarterly reports for a list of REITs that used external advisors up until November 2006. Then I organized the compensation schemes into seven categories and analyzed this information to find any patterns. I did not find significant evidence that there is a relation between the type of REIT and external advisors' compensation schemes. In conclusion, I failed to reject the null hypothesis: REIT compensation schemes do not depend on the type of assets under management.