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Externally advised REITs to internally advised REITs

Bridgette Adams & John S. 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 on average per year, compared to REITs with internal advisors. In my research I examined REITs that changed from external to internal advisors and the effect that had on their short-run and long-run returns. In order to do this, I looked at annual reports for a list of REITs that used external advisors. Then I found the date that they announced the change in advisory type and looked at the price of the REIT on the event of the announcement, as well as the long term effect of the announcement. I did not find significant evidence that the announcement of a change in advisors has a material change in the price of the REIT on a short-term basis. In conclusion, I failed to reject the null hypothesis: REIT prices do not change as a result of a change of advisor announcement, in the short-run.