Real Estate Economics / Volume 13, Issue 4 / pp. 404-423

Managerial Incentives: Implications for the Financial Performance of Real Estate Investment Trusts

Michael E. Solt, Norman G. Miller

First published: December 1985
https://doi.org/10.1111/1540-6229.00362

Abstract

In the face of informational asymmetry, REIT equity investors may bear the costs of agency. Hence, it is in shareholders' interests to pay incentive fees to induce managers to utilize their superior information and to take suitable actions that reduce these costs. In this paper, the relation between financial performance and fees paid, and between fees paid and contractual incentives, are examined to determine whether equityholder interests are being served by the decisions of REIT managers. The data reveal that fees paid and financial performance are positively related, indicating that financial performance is at least partially endogenous with respect to managerial action. Moreover, the evidence also suggests that the industry fee structure has changed over the period in a manner that appears to have reduced the agency costs borne by equityholders, and by the end of the sample period the fees paid in general seem to reflect incentives that are consistent with the wealth maximization goal of equityholders.

REFERENCES

[1] A. Barnea, R.A. Haugen and L.W. Senbet. Market Imperfections, Agency Problems and Capital Structure: A Review. *Financial Management* **10**(3): 7–22, Summer 1981.

Web of Science® | Google Scholar

[2] D.P. Baron. A Model of the Demand for Investment Banking Advising and Distribution Services for New

[4] P.H. Cootner and D.M. Holland. Rate of Return and Business Risk. *Bell Journal of Economics and Management Science* **1**(2): 211–26, Autumn 1976.

Web of Science® | Google Scholar

[5] J. Eaton and H.S. Rosen. Agency, Delayed Compensation, and the Structure of Executive Remuneration. *Journal of Finance*, **38**(5): 1489–1505, December 1983.

Web of Science® | Google Scholar

[6] B. Holmstrom. Moral Hazard and Observability. *The Bell Journal of Economics* **10**: 34–91, Spring 1979.

Web of Science® | Google Scholar

[7] M.C. Jensen and W.H. Meckling. Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics* **3**: 305–60, October 1976.

CAS | Web of Science® | Google Scholar

[8] W.E. Leland and D.H. Pyle. Informational Asymmetries, Financial Structure, and Financial Intermediation. *Journal of Finance* **32**(2): 371–88, May 1977.

Web of Science® | Google Scholar

[9] W.G. Lewellen and B. Huntsman. Managerial Pay and Corporate Performance. *American Economic Review* **60**(4): 710–20, September 1970.

Web of Science® | Google Scholar

[10] R.T.S. Ramakrishnan and A.V. Thakor. Moral Hazard, Agency Costs, and Asset Prices in a Competitive Equilibrium. *Journal of Financial and Quantitative Analysis* **17**(4): 503–32, November 1982.

Web of Science® | Google Scholar

Citing Literature

Download PDF