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

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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.

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