

Information Asymmetry and Organizational Structure

Abstract

We test for differences in information asymmetry across two organizational forms in the REIT industry. We find significant differences with external REITs being significantly more transparent relative to internal REITs, and these differences are reflected in the loan contract terms and loan syndicate structure of loans made to these two types of REITs. We find that the relatively more transparent externally advised REITs are offered more favourable loan contracts in terms of discounts in loan rate charged, less stringent collateral requirement and covenants, and that loans to external REITs have syndicates that are larger in size and the lead lender retains a smaller portion of the loan.

Key words: external advisor; Real Estate Investment Trust; organizational structure; loan contract terms; information opacity; certification effect

JEL classification: G20, L85, L00, L22