



CH4 Advisor Puzzle

*Is Doing it Yourself Better
Than Outsourcing ?*

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Outline

1. Preface
2. The Evolution
3. The Problems with Using External Advisors
4. The Problem of Using Internal Advisors
5. Which One To Use : External or Internal?
6. Issues Complicated by Compensation Schemes
7. What have we learned?
8. What is the future direction?

Preface

- Before 1986 : external-management & external-advisor
- After 1986(Congress changed the tax code) : internal-management & internal-advisor is allowed
- External-advisor : the interest of the REITs stockholders may not be the advisor's top priority

Preface (con.)

1986 $\xrightarrow{\text{External}}$ now
Internal

2Q

How can they coexisted ?

Which is better ?

The Evolution



The Evolution (con.)

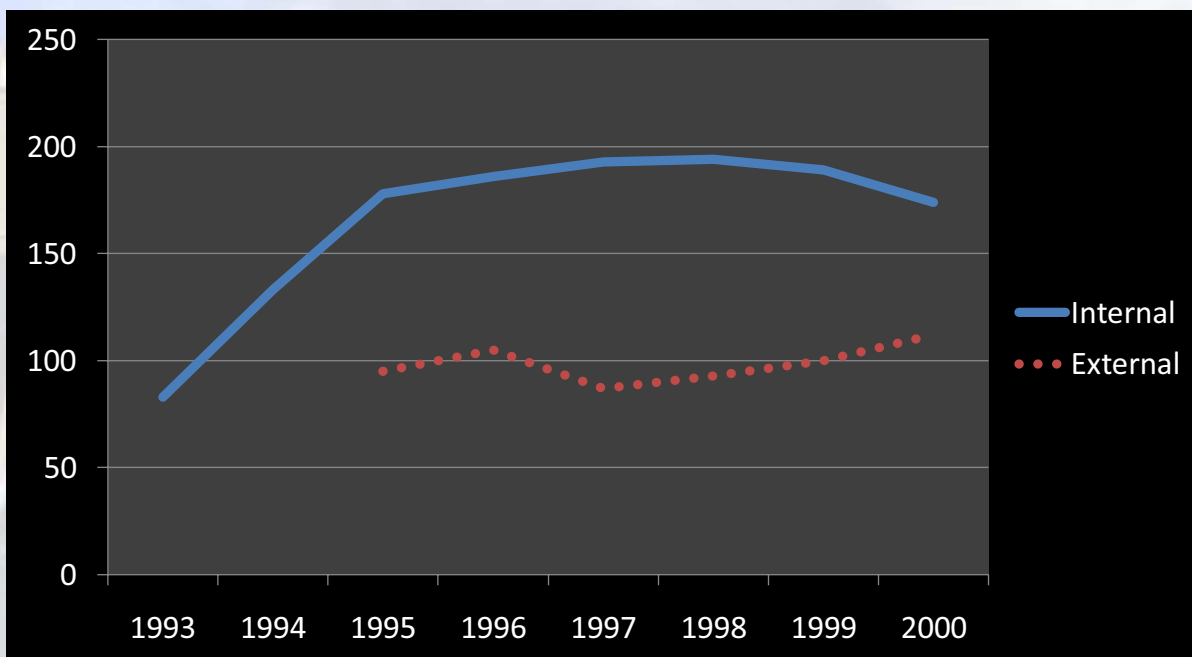
- After 1986 Tax Reform Act:
 - 1) The first case : New Plan Realty Trust (1988)
 - 2) Meridian Point Real Estate Investment Trust (1991) : save 3.5m in 1 year
 - 3) Kimco Realty(1991) : incentive plan
 - mitigate the agency problem
 - growth it REITs market (1990s)

The Evolution (con.)

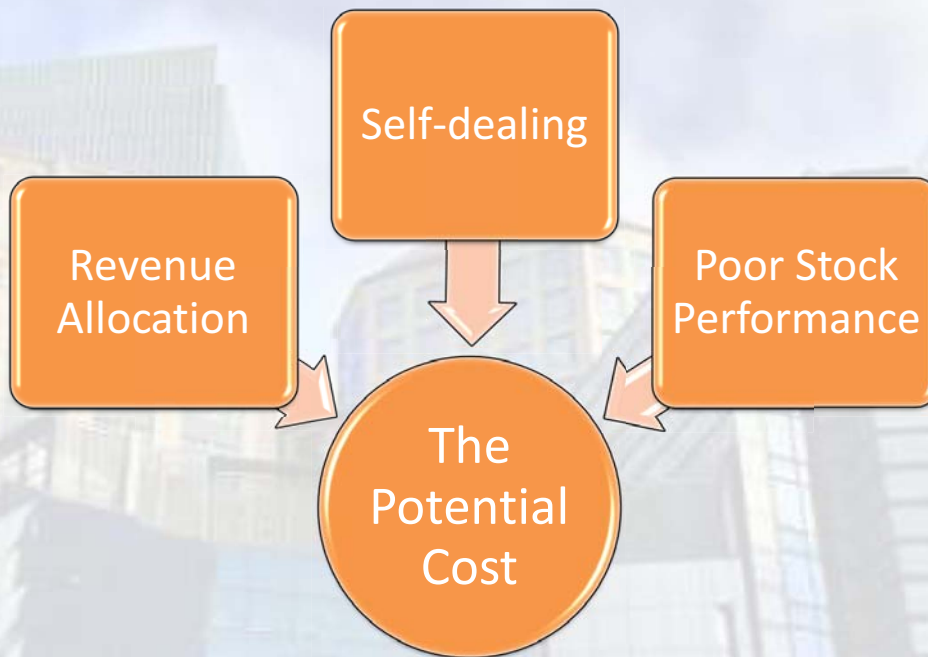
Internally advised REITs



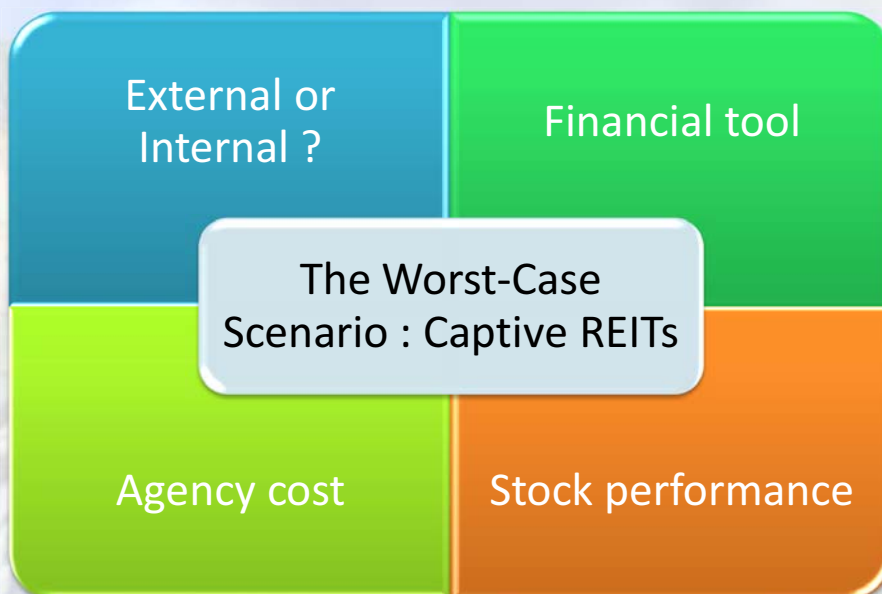
The Evolution (con.)



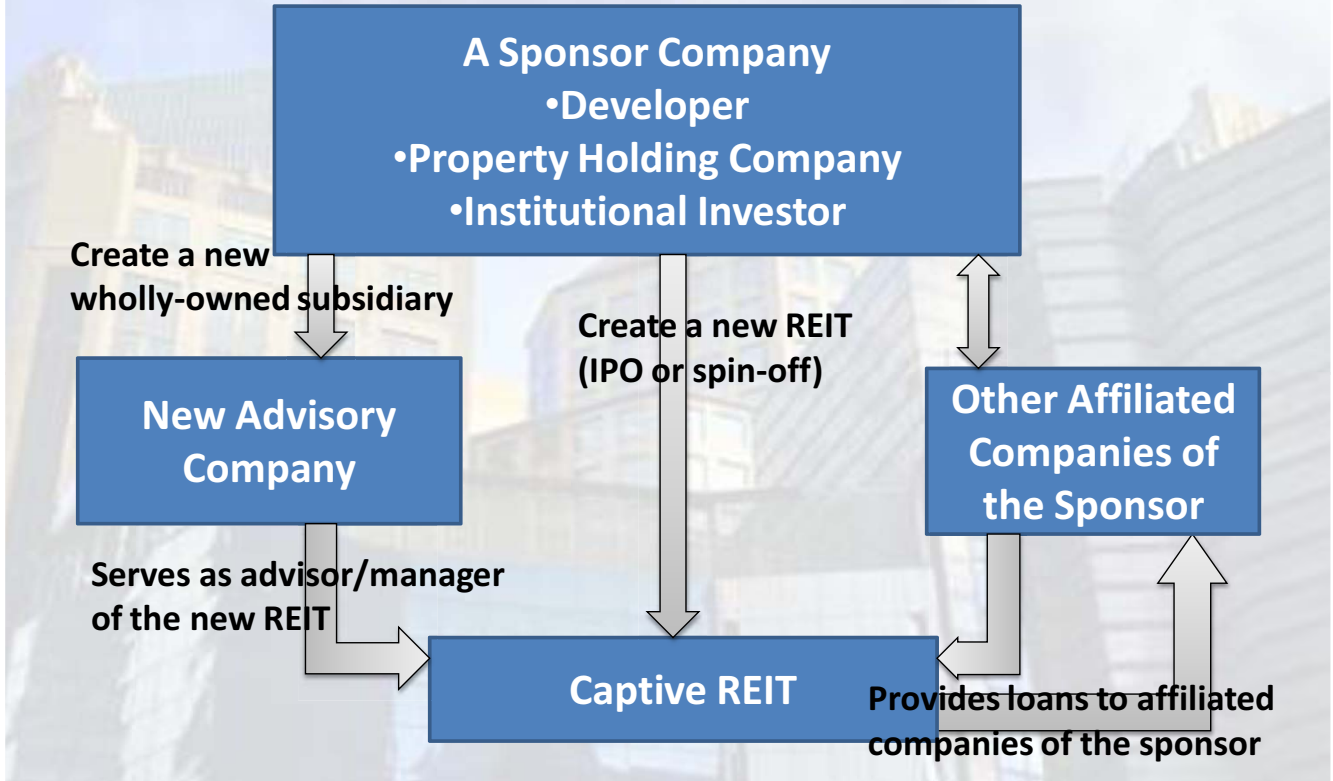
The Problems with Using External Advisors



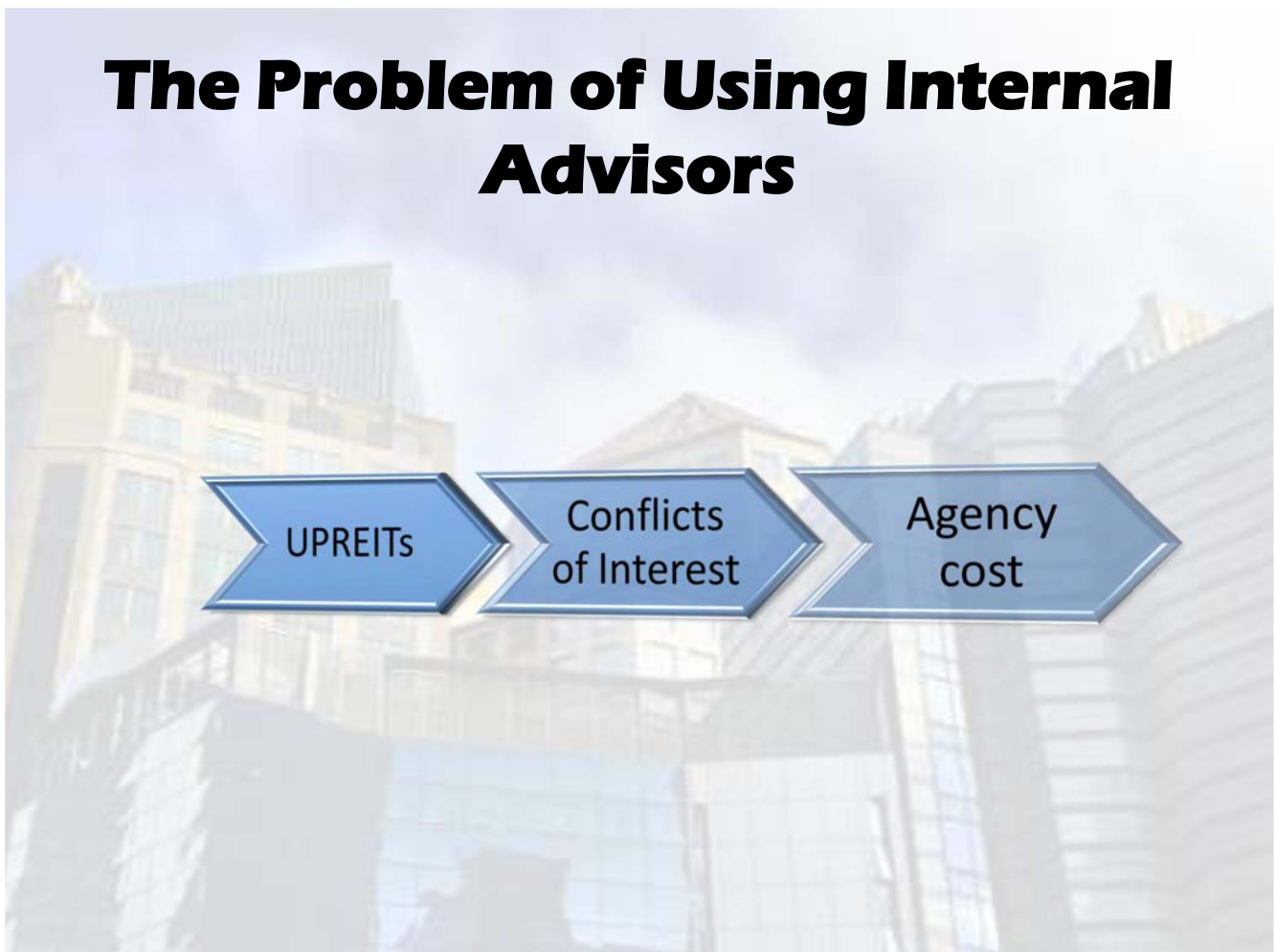
The Problems with Using External Advisors



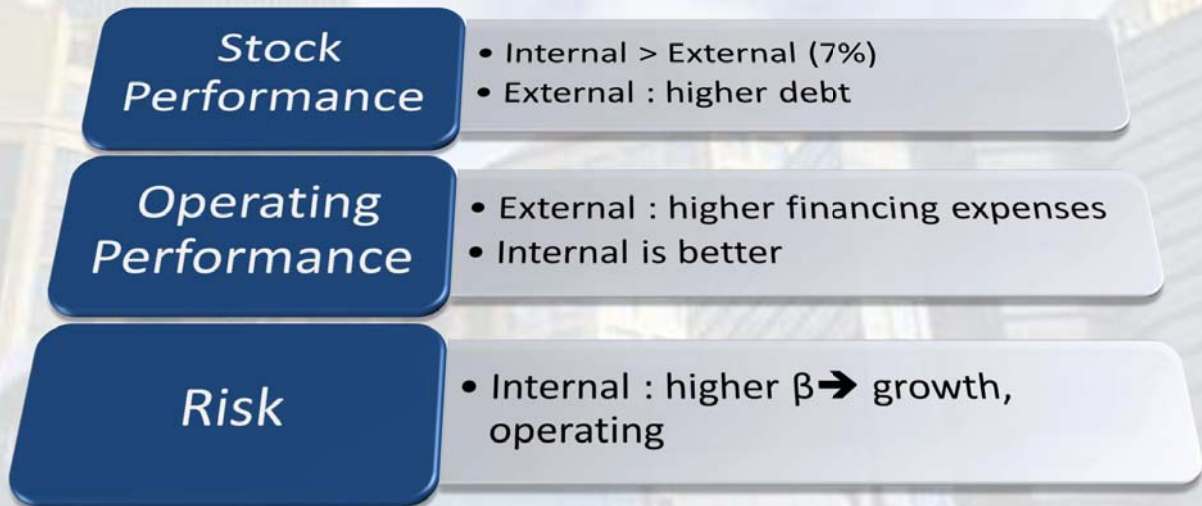
The Problems with Using External Advisors (con.)



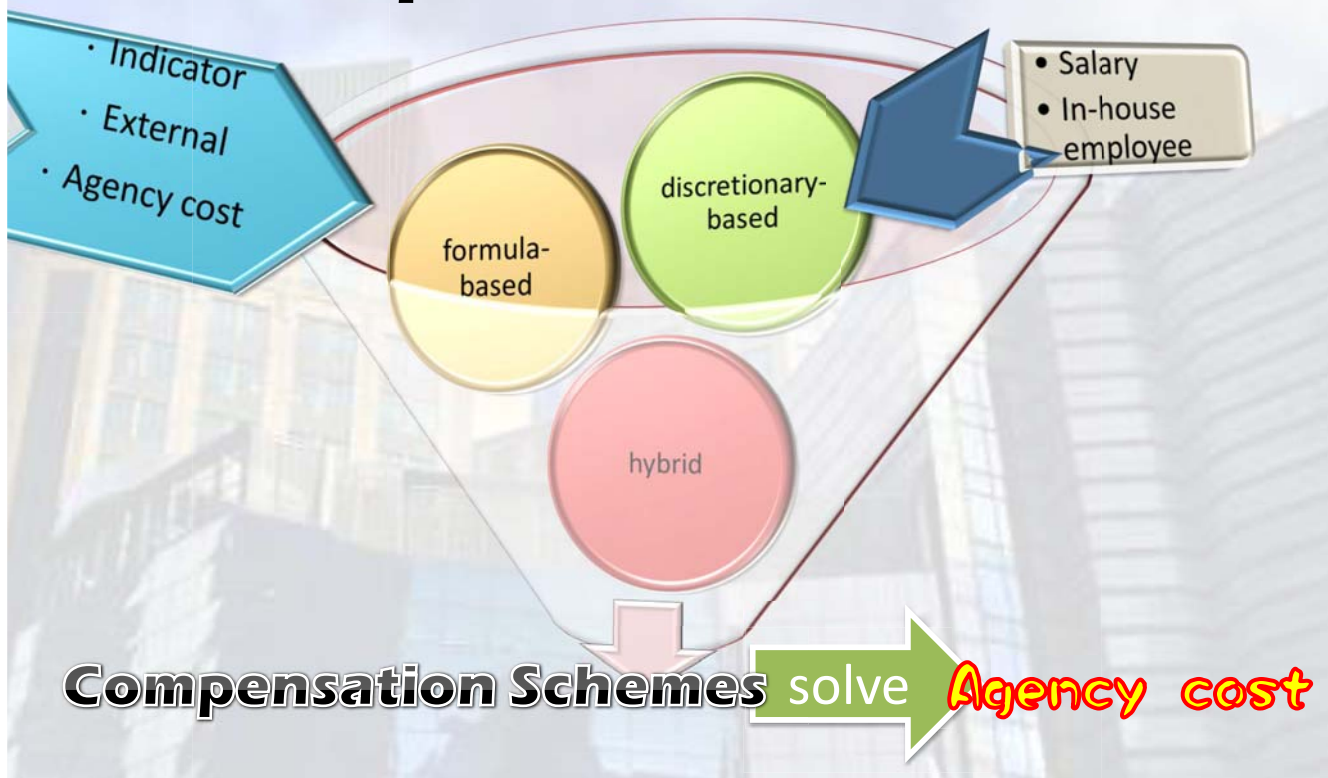
The Problem of Using Internal Advisors



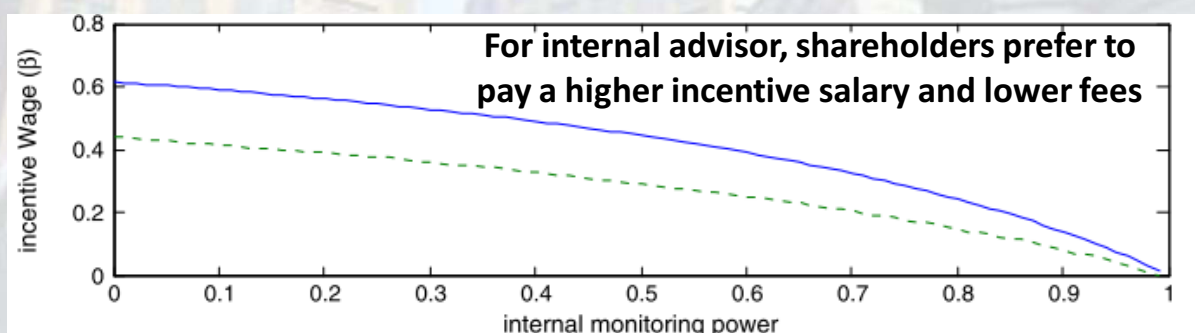
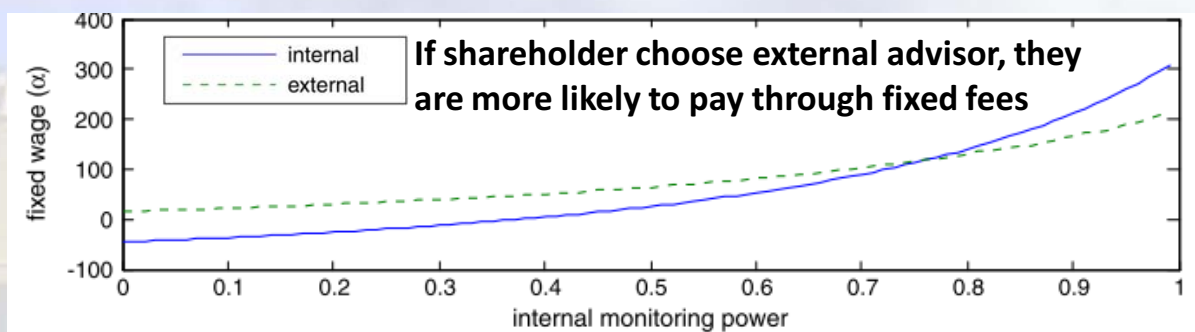
Which One To Use : External or Internal ?



Issues Complicated by Compensation Schemes



A Theory on REIT's Advisor Choice and the Optimal Compensation Mechanism



What have we learned ?

WIN !!!

Type	Internal	External
Interest	Stockholder	Advisor
Agency problem	Slight	Serious
Stock performance	Better	Worse
Reputation Advisor	—	Reputation Advisor → better
Operating performance	Better	Worse, improving

Discussion

- 1) 內部顧問比外部顧問還好，那為何還有外部顧問的存在？
- 2) 美國以內部顧問為主，為何在證券化上以美國為基礎的亞洲各國，會以外部顧問為主？



End