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Meet the "*born efficient*" financial institutions: Evidence from the boom years of US REITs

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Highlights-QUAECO-D-15-00208

- *New REITs outperform established REITs in all forms of efficiency*
- *Unlike their most peers in other industries, new REITs are "born efficient"*
- *The best practices of de novo REITs are emulated by the industry over time*
- *New REITs are large, rich with congenital experience, and able to access finance*
- *New REITs are innovative and focused in terms of property and geography*

Abstract

The theory and evidence demonstrate that new entrants suffer from several '*liabilities of newness'* and tend to underperform the incumbent established firms. This study, using the Data Envelopment Analysis (DEA) approach and an eleven-year dataset from the 1990s, a period famed with the highest number of REIT entries, analyzes the evolution of cost, allocative, managerial, pure managerial and scale managerial efficiencies of de novo REITs during their life cycle. Our results show that de novo REITs, especially the newest ones, significantly outclass the incumbents in terms of operational efficiency, suggesting that unlike their most brethren in other industries, modern REITs are "*born efficient*". Our empirical and anecdotal inquiries point to some *ex ante* and *ex post* factors, such as smart regulations, right timing, large entry size, rich congenital experience, access to finance, lower leverage, institutional mentoring and investment, property and geographic focus, public life, innovativeness, and above all, active and self-management as the likely reasons for the distinctiveness of the new REITs. Moreover, under market and competitive pressures, the superior practices of these Schumpeterian entrepreneurs are copied and gradually disseminated across the industry. Evidently, further study of the ecologies, which attract such "*born efficient*" firms, has promising research, wealth and welfare effects.

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