REIT Performance and Prospectus Clarity
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We are examining the readability of the Investment Objective and Business Strategy sections of the 10-k annual reports of Real Estate Investment Trusts (REITs), both residential and industrial/office families. We are using the Oleander Readability Suite software to determine the readability levels of these sections. This area of research has been identified as important by numerous investigators. The Security and Exchange Commission has identified readability of financial documents as an important goal and measures all documents filed with them for readability. By use of multiple regression, we will test for relationships between the readability levels and certain features of the REITs including their annual yields, the betas, the types of REITs, and the debt/equity ratios. Dempsey, Harrison, Luchtenberg and Seiler (2012) found REITs with more readable annual reports had better returns. Li (2008) found firms that had harder to read annual reports had to incur higher costs of capital. Danielson, Harrison, Van Ness, and Warr (2014) found REITs that had more transparent annual reports experienced lower costs of capital via a lower ask-bid spread on their stocks. We are then continuing in this line of research by including additional important variables in our model. By utilizing these studies, we will compare our results to their previous analysis in hopes to determine a correlation between the readability of REIT documents and the trusts success.