Real Estate Economics / Volume 31, Issue 3 / p. 313-346

Financing Choice and Liability Structure of Real Estate Investment Trusts

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First published: 12 August 2003
https://doi.org/10.1111/1540-6229.00068

Abstract

We conduct an analysis of public financial offerings of equity Real Estate Investment Trusts (REITs), with a focus on liability structure effects and whether or not firms target longer-run debt ratios. Our major findings are that (1) proceeds from equity offers are more likely to fund investment, whereas public debt offer proceeds are typically used to reconfigure the liability structure of the firm; (2) public debt issuers are often capital constrained and target total leverage ratios to retain an investment grade credit rating; and (3) the preoffer liability structure affects the issuance choice decision, in that firms with higher preoffer levels of secured (unsecured) debt tend to issue equity (public debt). Other notable findings are that the market for public REIT debt is integrated with the broader debt markets and that higher credit quality firms issue longer-maturing bonds.

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