

Incentive Problems and General Partner Compensation in Limited Partnership Real Estate Investments

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Abstract

When a general partner raises capital for a real estate syndication, prospective investors should price-protect against incentives of the general partner to misrepresent project cash flows. In this study, I evaluate the structure of the general partner's compensation and specific project characteristics to determine if compensation structure can mitigate agency costs. Results indicate that front-end compensation is higher for the high reputation general partner and that the compensation structure varies with the degree of management expertise required and the financial risks of the investment.

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