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Capital Structure Determinants in Real Estate Limited Partnerships

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Abstract

This paper models the capital structure decision facing partnerships and tests the implications using panel-data regression analysis for a sample of real estate limited partnerships. The model shows that if an optimal capital structure exists for non-taxed firms, it is a function of personal tax effects, costs of financial distress, and substitute tax shields. The empirical tests indicate a positive relationship between leverage and the proportion of real estate assets held, and a negative relationship between leverage and both growth rates and non-debt tax shields. Furthermore, the findings suggest that changes resulting from the Tax Reform Act of 1986 are positively related to partnership leverage.

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