Financial Review / Volume 30, Issue 3 / p. 399-426

Capital Structure Determinants in Real Estate Limited Partnerships

Marcus T. Allen

First published: August 1995
https://doi.org/10.1111/j.1540-6288.1995.tb00839.x
Citations: 21

The author gives special thanks to seminar participants at Florida Atlantic University, University of Georgia, University of Texas at Arlington, and the 1992 Annual Meeting of the American Real Estate Society. The comments of the anonymous referees greatly improved this paper. Any remaining errors are the author's.

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.

References

[1] Bradley, Michael, Gregg A. Jarrell, and E. Han Kim. On the Existence of an Optimal Capital Structure: Theory and Evidence. *The Journal of Finance* **39**(1984): 857–878.

Web of Science® | Google Scholar

[2] DeAngelo, Harry, and Ronald W. Masulis. Optimal Capital Structure Under Corporate and Personal Taxation. *Journal of Financial Economics* **7**(1980): 3–29.

Web of Science® | Google Scholar

[3] Friend, Irwin, and J. Hasbrouck. Determinants of Capital Structure." In *Research in Finance*, **v. 7**, edited by A. Chen. New York : JAI Press, 1988.

Google Scholar

[4] Friend, Irwin, and Larry H. P. Lang. An Empirical Test of the Impact of Managerial Self-Interest on Corporate Capital Structure. *The Journal of Finance* **43**(1988): 271–281.

Web of Science® | Google Scholar

[5] Gau, George W., and Ko Wang. Capital Structure Decisions in Real Estate Investment. *AREUEA Journal* **18**(1990): 501–521.

Web of Science® | Google Scholar

[6] Greene, William H. *Econometric Analysis*. New York : Macmillan, 1990.

Google Scholar

[7] Haight, G. Timothy. *The New Limited Partnership Investment Advisor*. Chicago : Probus, 1987.

Google Scholar

[8] Harris, Milton, and Artur Raviv. The Theory of Capital Structure. *The Journal of Finance* **46**(1991): 297–355.

Web of Science® | Google Scholar

[9] Howe, John S., and James D. Shilling. Capital Structure Theory and REIT Security Offerings. *The Journal of Finance* **43**(1988): 983–993.

Web of Science® | Google Scholar

[10] Jaffe, Jeffrey F. Taxes and the Capital Structure of Partnerships, REITs and Related Entities. *The Journal of Finance* **46**(1991): 401–407.

Web of Science® | Google Scholar

[11] Jensen, Michael C., and William H. Meckling. Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure. *Journal of Financial Economics* **3**(1976): 305–360.

CAS | Web of Science® | Google Scholar

[12] Kim, Wi S., and Eric H. Sorensen. Evidence on the Impact of Agency Costs of Debt in Corporate Debt Policy. *Journal of Financial and Quantitative Analysis* **21**(1986): 131–144.

PubMed | Web of Science® | Google Scholar

[13] Kraus, A., and R. Litzenberger. A State Preference Model of Optimal Financial Leverage. *The Journal of Finance* **28**(1973): 911–921.

Web of Science® | Google Scholar

[14] Long, M.S., and E.B. Malitz. Investment Patterns and Financial Leverage.” In *Corporate Capital Structures in the United States*, edited by B. Friedman. Chicago : University of Chicago Press, 1985.

Web of Science® | Google Scholar

[15] Maris, Brian A., and Fayez A. Elayan. Capital Structure and the Cost of Capital for Untaxed Firms: The Case of REITs. *AREUEA Journal* **18**(1990): 22–39.

Web of Science® | Google Scholar

[16] Miller, Merton H. Debt and Taxes. *The Journal of Finance* **32**(1977): 261–275.

Web of Science® | Google Scholar

[17] Modigliani, Franco, and Merton H. Miller. The Cost of Capital, Corporation Finance and the Theory of Investment. *American Economic Review* **48**(1958): 261–297.

Web of Science® | Google Scholar

[18] Modigliani, Franco, and Merton H. Miller. Corporate Income Taxes and the Cost of Capital: A Correction. *American Economic Review* **53**(1963): 433–443.

Web of Science® | Google Scholar

[19] Myers, Stewart C. Determinants of Corporate Borrowing. *Journal of Financial Economics* **5**(1977): 147–175.

Web of Science® | Google Scholar

[20] Smith, Clifford W., and Jerold B. Warner. On Financial Contracting: Analysis of Bond Covenants. *Journal of Financial Economics* **7**(1979): 117–161.

Web of Science® | Google Scholar

[21] *The Stanger Report* . 12, no.9(September 1990).

Google Scholar

[22] Titman, Sheridan, and Roberto Wessels. The Determinants of Capital Structure Choice. *The Journal of Finance* **43**(1988): 1–20.

Web of Science® | Google Scholar

Citing Literature