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Institutional Stock Holdings and Firm Leverage: Evidence From Real Estate Investment Trusts (REITs)

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REITs have been shown to hold substantially high leverage compared to other non-REIT firms. Some reasons for such high leverage include real estate's capital-intensive nature and REITs' ability to use their assets as collateral to reduce their cost of borrowing. Additionally, the legal structure of REITs that requires them to pay at least 90% of their taxable income as dividends has been noted in the literature to impact their capital structure (See, for example, Feng et al., 2007). REIT firms must constantly raise funds externally to finance investments due to lower retained earnings. For instance, in Ott et al. (2005), appropriately, only 7% percentage of REIT investments are covered by retained earnings. High leverage increases firm risk and can negatively affect its value. In this paper, we focus on institutional shareholders as monitors of REIT debt. We posit that institutional investors, being major shareholders, have a strong incentive to reduce firm risk and improve value by ensuring that REITs do not exceed their target leverage. We confirm our expectations using publicly traded U.S. equity REITs from 1995 – 2020. We document that REITs with institutional ownership have declining debt ratios. Further, we show that institutional investment is correlated with target debt ratios of REIT firms. Additionally, our findings indicate that active institutional investors have a greater influence on REIT debt levels. Our results remain qualitatively similar under various robustness checks.

Biography:

Dr. Bakhtear Talukdar is a Tenured Associate Professor of Finance at University of Wisconsin – Whitewater, which houses the largest AACSB accredited business school in the state of Wisconsin. He teaches undergraduate courses such as Business Finance, Financial Markets and Institutions, Security Analysis and graduate courses such as Quantitative Financial Analysis and Contemporary Research Methods (at doctoral level). His research interests include corporate finance, corporate governance, and volatility. His work appeared in peer-reviewed journals such as *The Journal of Futures Markets, Applied Economics, Finance Research Letters, Real Estate Research, Global Finance Journal, Review of Quantitative Finance & Accounting, Quantitative Finance, and International Review of Economics & Finance.*