THE DETERMINANTS OF CAPITAL STRUCTURE OF REAL ESTATE COMPANIES: EVIDENCE FROM CHINA

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ABSTRAK

Secara keseluruhannya pasaran hartanah global terus menarik perhatian daripada institusi, pengurus dana dan pelabur swasta. Justeru itu, hartanah telah secara rasmi diiktiraf sebagai satu salah satu aset, ia menerima reputasi yang kukuh sebagai sumber relatif pulangan yang lebih stabil, hasil yang lebih tinggi dan aliran tunai yang kukuh. Penyelidikan telah membuktikan bahawa pilihan struktur modal adalah berbeza dengan ketara di kalangan industri. Industri hartanah adalah eksklusif dalam pelbagai industri dari segi pemilihan struktur modal. Ini adalah salah satu hasil daripada syarikat hartanah mempunyai keselamatan yang lebih tinggi (aset hartanah) untuk menangani jumlah hutang yang lebih besar, dan biasanya mempunyai nisbah tahap hutang yang lebih tinggi. Oleh itu, kajian ini adalah penting kerana ia meningkatkan kefahaman penentu struktur modal di syarikat hartanah di China. Kajian ini mengkaji penentu struktur modal syarikat-syarikat hartanah di China, yang disenaraikan di Bursa Saham Shanghai dan Bursa Saham Shenzen dari tahun 2005 hingga 2012. Sampel akhir terdiri daripada 70 dengan sejumlah 561 pemerhatian.

Hasil kajian jelas mengesahkan bahawa apa yang telah ditemui dalam kajian lain, namun dalam skop yang berbeza. Hasil kajian menunjukkan bahawa faktor yang paling kuat dalam mempengaruhi keputusan tahap hutang dalam model adalah pelepasan cukai selain hutang , keuntungan, ketara dan saiz syarikat. Dapatan kajian menunjukkan bahawa pelepasan cukai selain hutang mempunyai hubungan positf dengan jumlah hutang bagi REC di China. Keuntungan adalah signifikan negatif dengan tahap hutang dalam kedua-dua model dan selaras dengan teori pecking order. Hubungan positif antara ketara dan tahap hutnag memberi sokongan kepada teori keseimbangan yang menramalkan bahawa aset ketara bertindak sebagai cagaran dan memberi keselamatan kepada pemiutang sekiranya berlaku masalah kewangan. Saiz syarikat REC adalah positif dan signifikan untuk mengawal tahp hutang, syarikat yang lebih besar boleh meminjam pada kadar yang lebih menggalakkan kerana mereka dilhat sebegai kurang risiko

Kata Kunci: Struktur modal , krisis kewangan global , tahap hutang , REIT , China

ABSTRACT

Ultimately global property markets continue to receive an increasing degree of interest from institutions, fund managers, and private investors. With real estate having formally been acknowledged as an asset class, it is receiving a strong reputation as a relative source of more stable returns, higher yields and steady cash flows. Research has proved that capital structure selections differs significantly across industries. Property industry is exclusive in diverse industries in terms of capital structure selection. This as a result of property firms have more security (real estate assets) to deal with larger amounts of debt, and usually have higher leverage ratios. Therefore, this study is important as it develops the understanding of capital structure determinants in Chinese real estate companies (REC). This study examines capital structure determinants of real estate companies in China, listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange from the year 2005 until 2012. The final sample consists of 70 with a total of 561 observations.

The findings clearly confirm for what has been found in other studies but in different scope. The result shows that the most powerful factor in affecting LEVERAGE decisions in the model is non-debt tax shields, profitability, tangibility and size of the companies. The result shows that non-debt tax shields is positively related to total debt for Chinese REC. Profitability is negatively significant to leverage in both models and in line with the pecking order theory. The positive relationship between tangibility and leverage gives support to the trade-off theory which postulates that tangible assets act as collateral and provide security to lenders in the event of financial distress. The size of REC companies is positively and significantly control for leverage, bigger firms can borrow at more favourable rates because they are perceived as less risky.

Keywords: Capital structure, leverage, RECs, China

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

The relationship between firm value and capital structure has been the most debated and unsettled issue in the field of corporate finance literature on both theories and empirical researches in the past 50 years. Though company's financing behaviour can influence the firm value, factors that determine the capital structure are also an important issue to be addressed in today's corporate environment due to the importance of capital structure. The concept of capital structure can be seen as the way corporates finances their investment activities, which is either in form of equity or debt or the mix of both equity and debt (Kerrigan, 2014). While debt and equity may likely be different in nature, but they match together as company's financing. The essential point is to make the best financing choice or pattern that suit the business organization and will maximise shareholders wealth. Management of corporation play a crucial role in selecting the debt to equity in order to maximize firm value. A wrong choice made by the management of the company in their capital structure mixed may lead to financial distress and lastly to bankruptcy (Feng et al., 2007).

Modigliani and Miller's irrelevancy propositions argued that firm's financing policy is irrelevant under a restrictive set of conditions in the world of perfect capital markets. They revealed that determinants of capital structure do not affect firm value. Nevertheless, in reality, perfect markets do not exist, and it is inexperienced to sum up that financing and investment decisions are unrelated. A number of theories have been

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