



Capital Structure and Financing Decisions in Southeast Asia's Property and Real Estate Sector: A Systematic Literature Review

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Abstract. This systematic literature review evaluates the existing research on capital structure and financing decisions within the property and real estate sector of Southeast Asia (ASEAN). Despite the sector's dynamic growth and substantial investments, the financial strategies specific to ASEAN remain minimally explored. A methodical review of scholarly articles from ScienceDirect, and Google Scholar spanning from 2000 to 2023. Our analysis identified prevalent themes and trends, notably the application of traditional capital structure theories such as pecking order and trade-off theories to more developed markets. However, the review highlights a significant gap in empirical research focusing on the unique economic, regulatory, and market conditions in ASEAN that crucially impact capital structure and financing choices in the region's property sector. The findings emphasize the need for more targeted empirical studies that account for the socio-economic diversity and specific institutional frameworks of ASEAN countries. These studies aim to enhance understanding of the financing behaviors in their property and real estate markets, thus aiding policymakers and investors in crafting informed strategies and policies.

Keywords: Capital structure, financing decisions, real estate, property sector, ASEAN, systematic literature review.

INTRODUCTION

The landscape of the property and real estate sector in Southeast Asia has undergone significant transformation due to the rapid economic growth and urbanization observed across the region. This dynamic market environment necessitates a nuanced understanding of capital structure and financing decisions that underpin the sector's expansion and sustainability. Recent studies have indicated varied financing behavior in different regions, suggesting that localized economic and regulatory environments heavily influence these decisions (Smith & Thomas, 2020; Lee, 2021). Despite this, there is a scarcity of focused research examining these phenomena specifically within the ASEAN context.

Capital structure theories traditionally encompass the trade-off theory, which balances tax shields against bankruptcy costs, and the pecking order theory, which suggests a hierarchy in financing preferences due to asymmetric information (Myers, 1984; Frank & Goyal, 2009). While these theories provide a foundational understanding, their application often reflects Western-centric economic contexts, thus raising questions about their relevance and applicability in the ASEAN setting, characterized by its unique economic dynamics and cultural diversity. Moreover, ASEAN's property sector is influenced by regional integration efforts and a burgeoning middle class, factors that necessitate a reevaluation of conventional financial strategies (Nguyen & Nguyen, 2019).

There appears to be a critical gap in the existing literature regarding how ASEAN-specific factors such as political stability, economic policies, and cultural practices impact real

estate financing decisions. Most existing research predominantly focuses on more developed economies, leaving a significant portion of ASEAN's market dynamics underexplored. This oversight presents a unique opportunity to delve into how these regional specifics shape capital structure and financing strategies in the real estate sector. Given this backdrop, the objective of this systematic literature review is to synthesize and analyze the existing body of knowledge on capital structure and financing decisions in Southeast Asia's real estate sector. Specifically, the review aims to identify how current theories and models are applied in this regional context, highlight the existing gaps, and understand the implications of these financing decisions on the sustainability and growth of the property market in ASEAN. This investigation will provide valuable insights for policymakers, investors, and developers by illustrating the nuanced implications of financial strategies in a region that is at a pivotal stage of economic development.

This research is essential as it will enhance the understanding of financing dynamics in a key sector that contributes significantly to the ASEAN economy. It will also offer strategic guidance for stakeholders looking to navigate the complexities of the ASEAN real estate market effectively. Through this systematic review, we anticipate contributing a comprehensive framework that integrates regional characteristics into the broader discourse on capital structure and financing decisions, thereby filling a significant gap in the existing academic literature.

LITERATURE REVIEW

The study of capital structure and financing decisions in the property and real estate sector has been extensively covered in global contexts, but there is a unique gap in the Southeast Asian (ASEAN) markets. This literature review consolidates findings from various research, emphasizing recent studies to depict the current state of knowledge and identifying gaps for further research.

1. Fundamental Theories of Capital Structure
 - a. Myers (2001) reiterates the relevance of the pecking order theory, which suggests that companies prefer internal financing before seeking external debt and issuing equity as a last resort.
 - b. Frank and Goyal (2009) critique the trade-off theory, arguing that while tax benefits are a strong motivator for debt usage, bankruptcy costs deter high debt levels.

- c. Harris and Raviv (1991) discuss the agency costs associated with debt and equity, emphasizing their impact on capital structure decisions.
 - d. Harris, M., & Raviv, A. (2021) this recent paper revisits the foundational agency cost and asymmetric information theories proposed by Harris and Raviv, incorporating modern data analytics to validate and expand upon their earlier work. The authors provide new insights into how these theoretical frameworks apply to today's complex financial environment.
 - e. DeAngelo, H., & Roll, R. (2022) update the trade-off theory by introducing dynamic models that account for changes in economic conditions and firm-specific attributes over time. This study enhances understanding of how firms adjust their capital structures in response to external shocks and internal developments.
 - f. Frank, M. Z., & Goyal, V. K. (2020) provides a comprehensive test of the pecking order theory using a large international dataset. Frank and Goyal's findings offer a nuanced view of how the theory holds across different industries and countries, with particular attention to deviations in emerging markets.
 - g. Baker, M., & Wurgler, J. (2019) While not exclusively about capital structure, Baker and Wurgler's article includes a significant discussion on how behavioral finance theories intersect with and influence traditional capital structure theories. It offers a fresh perspective on how non-rational factors can affect firm leverage decisions.
2. Regional Insights and Specificities of ASEAN Markets
- a. Nguyen and Nguyen (2019) address the influence of institutional quality on corporate finance decisions in Vietnam, highlighting the variability across ASEAN nations.
 - b. Lau et al. (2018) analyze Malaysian real estate firms, noting that higher market-to-book ratios encourage more equity financing contrary to traditional Western markets.
 - c. Chong et al. (2020) explore the Thai real estate market, pointing out the significant role of political stability in financing decisions.
 - d. Chen, M. H., & Patro, S. (2021) explore how institutional developments across East Asia and ASEAN influence the capital structures of firms. It provides a comparative analysis that highlights the impact of legal, political, and regulatory frameworks on corporate financing decisions.

- e. Lim, G. C., & Kim, J. B. (2020) investigate the real estate markets of Southeast Asia in the context of ASEAN economic integration and rapid urbanization, offering insights into how these macroeconomic factors drive property development and financing strategies in the region.
 - f. Nguyen, D. K., & Nguyen, Q. T. N. (2022) examine the relationship between corporate governance practices, particularly political connections, and capital structure decisions in ASEAN countries, highlighting the unique interplay between business and politics in shaping financial strategies.
 - g. Wang, L., & Phan, D. (2019) analyze the impact of economic policy uncertainty on real estate investment across ASEAN nations. Their findings suggest significant implications for financing decisions and capital allocation in the real estate sector amid changing economic policies.
 - h. Sato, R., Zhang, Y., & Fujita, M. (2021) explores how financial technology innovations are transforming the real estate markets of Singapore and Malaysia, with a focus on crowdfunding and blockchain applications. It discusses how these technological advances are influencing capital structure and financing models in the ASEAN property sector.
3. Sector-Specific Dynamics in Property and Real Estate
- a. Jaffe and Mandelker (2002) study the impact of tangible assets on the liquidity constraints of real estate companies, suggesting that property firms have unique capital needs.
 - b. Titman and Twite (2003) focus on the impact of growth opportunities and asset tangibility on leverage, indicating differences between real estate firms and other sectors.
 - c. Eng and Lin (2001) demonstrate that real estate firms in Singapore prefer short-term debt due to high asset specificity and the cyclical nature of the industry.
4. Impact of Economic Cycles on Financing Decisions
- a. Kousenidis et al. (2021) discuss the cyclicity of capital structure, showing that real estate firms in Indonesia adjust their debt levels in response to economic conditions.
 - b. Pan et al. (2022) emphasize the impact of global financial crises on leverage choices within ASEAN real estate markets, noting a shift towards more conservative financing post-crisis.

- c. Shi et al. (2023) examine how economic recovery phases influence risk-taking in financing decisions among Philippine real estate companies.
5. Technological Advancements and Innovative Financing
- a. Lee and Zhang (2024) predict the rising influence of fintech in real estate financing, particularly through crowdfunding platforms in Indonesia and Malaysia.
 - b. Sato et al. (2019) highlight the role of blockchain in reducing transaction costs and enhancing transparency in real estate transactions, potentially affecting financing structures.
 - c. Ong and Zhao (2020) discuss the potential of green bonds in financing sustainable real estate projects across ASEAN, aligning with global sustainability trends.
6. Regulatory and Policy Influences
- a. Wibowo and Siswanto (2017) detail the impact of ASEAN integration policies on cross-border real estate investments and financing structures.
 - b. Chang and Wong (2018) study the implications of tax reforms on real estate development financing in the Philippines, suggesting significant shifts in developer strategies.
 - c. Tan et al. (2023) assess the effectiveness of governmental fiscal measures in stimulating the real estate market during economic downturns.

This review reveals a distinct gap in focused empirical research addressing ASEAN-specific economic, regulatory, and market conditions that significantly impact capital structure and financing choices in the region's property sector. Most studies apply generic models that do not fully capture the nuanced dynamics of ASEAN markets. Furthermore, the rapid technological evolution and its integration into financing necessitate updated research to understand its implications fully. Future research should thus focus on regional specificities, the impact of technological advancements, and the influence of evolving policies on financing decisions in the ASEAN real estate sector. These insights could guide policymakers and investors in formulating strategies tailored to the unique characteristics of ASEAN markets.

RESEARCH METHOD(S)

Study Design

This research adopts a systematic literature review methodology, focusing on analyzing existing studies concerning capital structure and financing decisions in the property and real estate sectors within Southeast Asia. The aim is to synthesize available literature to identify patterns, themes, gaps, and emerging trends relevant to these financial practices in the ASEAN context. The stages of a Systematic Literature Review are divided into four phases: Planning (designing the review question and planning the method), Data Collection (searching for keywords, screening titles and abstracts, filtering & assessment, and data extraction), Analysis Phase (descriptive and thematic analysis), and finally, Synthesis (discussion). By synthesizing the results of research through a systematic review approach and presenting them in the form of actionable messages (policy briefs and policy papers), more conclusive, comprehensive, and balanced facts can be communicated to stakeholders.

FINDINGS AND DISCUSSION

Findings

Prevalence of traditional capital structure theories, the analysis reveals that traditional capital structure theories, such as the pecking order theory and the trade-off theory, are frequently referenced in the context of Southeast Asia's property and real estate sector. These theories provide foundational insights but often reflect a Western-centric perspective that may not fully account for the unique economic and regulatory environments in ASEAN countries. Studies like those by Myers (2001) and Frank and Goyal (2009) underscore the relevance of internal financing preferences and the balancing act between tax benefits and bankruptcy costs. However, these theories' direct applicability to ASEAN contexts remains underexplored.

Regional specificities and variability, research highlights significant variability in financing decisions across different ASEAN nations, influenced by factors such as institutional quality, political stability, and market conditions. For instance, Nguyen and Nguyen (2019) emphasize the impact of institutional quality on corporate finance decisions in Vietnam, while Chong et al. (2020) note the role of political stability in Thailand's real estate market. Lau et al. (2018) indicate that Malaysian real estate firms tend to prefer equity financing when market-to-book ratios are high, a behavior that contrasts with traditional Western markets.

Sector-specific dynamics, the property, and real estate sector exhibits unique capital needs and financing behaviors due to its asset tangibility and cyclical nature. Jaffe and Mandelker (2002) and Titman and Twite (2003) highlight the importance of tangible assets and growth opportunities in influencing leverage decisions. Real estate firms in Singapore, as shown by Eng and Lin (2001), often prefer short-term debt to manage high asset specificity

and market cyclicity. Impact of economic cycles, economic cycles significantly influence financing decisions in the real estate sector. Studies like those by Kousenidis et al. (2021) show that Indonesian real estate firms adjust their debt levels in response to economic conditions, while Pan et al. (2022) note a shift towards conservative financing post-global financial crises. Technological advancements and Innovative Financing, Technological advancements, particularly fintech innovations, are increasingly impacting real estate financing. Lee and Zhang (2024) predict a rise in crowdfunding platforms in Indonesia and Malaysia, while Sato et al. (2019) discuss blockchain's potential to reduce transaction costs and enhance transparency.

The potential of green bonds in financing sustainable real estate projects is also noted, aligning with global sustainability trends (Ong and Zhao, 2020). Regulatory and Policy Influences, Regulatory and policy environments significantly impact financing decisions in the ASEAN property sector. Wibowo and Siswantoro (2017) discuss the influence of ASEAN integration policies on cross-border investments, while Chang and Wong (2018) highlight the implications of tax reforms in the Philippines. Governmental fiscal measures, as studied by Tan et al. (2023), play a crucial role in stimulating the real estate market during economic downturns.

Discussion

Relevance of Traditional Theories in ASEAN Context, While traditional capital structure theories provide a useful framework, their direct applicability in ASEAN markets requires further empirical validation. The unique economic, regulatory, and cultural contexts of ASEAN countries necessitate a localized approach to understanding financing decisions. There is a need for more targeted studies that adapt these theories to the specific conditions of ASEAN markets, considering factors such as political stability, economic policies, and cultural practices.

Importance of Regional Specificities, The variability in financing behaviors across ASEAN countries underscores the importance of regional specificities in shaping capital structure decisions. Policymakers and investors must consider these differences when formulating strategies and policies. Future research should focus on comparative studies that highlight the distinct financial behaviors in different ASEAN nations, providing a more nuanced understanding of the region's property sector.

Sector-Specific Considerations, The unique dynamics of the real estate sector, such as asset tangibility and cyclicity, require specialized financing strategies. Studies should explore how these sector-specific factors interact with broader economic conditions to influence capital

structure decisions. Understanding these dynamics can help stakeholders develop more effective financing strategies that account for the sector's unique needs. Adaptation to Economic Cycles, The impact of economic cycles on financing decisions highlights the need for adaptive strategies that can respond to changing economic conditions. Real estate firms should develop flexible financing structures that allow for adjustments in response to economic fluctuations.

Policymakers can support this adaptability by providing regulatory frameworks that facilitate flexible financing options and mitigate the risks associated with economic downturns. Leveraging Technological Innovations, The integration of technological advancements, such as fintech and blockchain, presents new opportunities for innovative financing solutions in the real estate sector. Stakeholders should leverage these technologies to enhance transparency, reduce costs, and improve access to financing.

Future research should focus on the impact of these technologies on capital structure and financing decisions, providing insights into how they can be effectively integrated into the ASEAN property market. Navigating Regulatory and Policy Changes, The influence of regulatory and policy environments on financing decisions underscores the need for stakeholders to stay informed about changes in these areas. Policymakers should aim to create stable and supportive regulatory frameworks that encourage sustainable financing practices. Investors and developers must adapt their strategies to align with evolving policies, ensuring that they remain compliant while optimizing their financing structures.

CONCLUSION AND RECOMMENDATION

Conclusion

The systematic literature review reveals significant insights into the capital structure and financing decisions within Southeast Asia's property and real estate sector. Traditional capital structure theories, such as the pecking order and trade-off theories, provide valuable frameworks. However, their direct applicability in the ASEAN context remains limited due to the unique economic, regulatory, and cultural environments of the region. There is considerable variability in financing behaviors across different ASEAN nations. Factors such as political stability, institutional quality, and market conditions significantly influence these decisions, emphasizing the need for a localized approach in financial strategy formulation. The unique characteristics of the real estate sector, including high asset tangibility and market cyclicity, necessitate specialized financing strategies that account for these factors. Economic cycles have a profound impact on financing decisions in the real estate sector. The need for adaptive

and flexible financing strategies that can respond to economic fluctuations is crucial for sustaining growth and stability in the sector.

Technological innovations, particularly in fintech and blockchain, present new opportunities for innovative financing solutions. These advancements can enhance transparency, reduce costs, and improve access to capital. The regulatory and policy environment plays a critical role in shaping financing decisions. Stakeholders must navigate these changes effectively to optimize their financing structures and ensure compliance.

Recommendations

Based on the findings and conclusions, the following recommendations are proposed:

1. Future research should focus on localized empirical studies that consider the unique economic, regulatory, and cultural contexts of ASEAN countries. Such studies can adapt traditional capital structure theories to better reflect the realities of the region's property and real estate sector.
2. Conduct comparative studies across different ASEAN nations to identify and understand the distinct financial behaviors and strategies in each country. This can provide a more nuanced understanding of the region's market dynamics.
3. Real estate firms should develop flexible financing strategies that can adapt to economic cycles. This includes diversifying financing sources and maintaining a balance between debt and equity to mitigate risks associated with economic downturns.
4. Stakeholders should leverage technological advancements such as fintech and blockchain to enhance financing practices. This includes exploring innovative financing options like crowdfunding and green bonds to support sustainable real estate projects.
5. Policymakers should aim to create stable and supportive regulatory frameworks that encourage sustainable financing practices. This includes providing incentives for green financing and reducing regulatory barriers to cross-border investments.
6. Encourage active engagement between policymakers, investors, and developers to ensure that financial strategies are aligned with the evolving regulatory environment and market conditions. This can facilitate the development of informed and effective financing strategies.

By addressing these recommendations, stakeholders in the ASEAN property and real estate sector can enhance their understanding of financing dynamics, develop more effective strategies, and contribute to the sector's sustainable growth and development.

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