Comparative Analysis of Development Strategies of Real Estate Companies in Different Fields

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Abstract. With the rapid development of the real estate industry, people's interest in real estate investment is increasing, and its industry value is also rising. But the real estate industry is not what people usually think, it has many branches, including the medical and health field, apartment housing field, entertainment real estate field and so on. Investment in different fields of real estate has become a major problem for people, and which field to choose for investment has become a problem for investors. This paper mainly studies the development and operation of real estate in three different fields, compares and analyzes the data of real estate enterprises in three different fields, and gives investors investment advice. This study mainly analyzes the market conditions of three companies by investigating the financial report data of three companies located in different real estate fields, calculating the leverage, WACC and beta of asset of the three companies, so as to compare the situation of different real estate fields. After calculations and data analysis, it was finally concluded that Welltower is in the best position among the three companies, but investors are still allowed to reasonably choose the companies and companies to invest in according to their own risk tolerance. These three companies are all well-run enterprises, and Welltower's data also reflects the advantages of the real estate field of health care and pension in the real estate industry, which is not only the impact of policies, but also the results of the company's own efforts.

Keywords: Real Estate, WACC, Leverage, Beta of Asset.

1 Introduction

With the development of society and economic progress, the real estate industry has also grown rapidly, and many different sub-fields have been derived. Different real estate sectors have different development directions, resulting in different development strategies, resulting in different business conditions in different fields. But as a real estate industry, what are the differences between real estate development in different fields? The study of this issue is necessary to explore the coexistence and development of different sub-sectors of real estate in the future. Based on the financial report data of three well-known listed companies in different real estate fields, this article attempts to show the differences and commonalities of the real estate sub-

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industry. The three well-known businesses are Welltower, Equity Residential and Simon Property Group. Among them, Welltower is a Healthcare REIT in the United States, mainly responsible for the real estate business in the pension and health care field. Equity Residential is the largest residential REITs in the United States, engaged in real estate asset acquisition, development and multifamily property management in the United States. The biggest REIT company in the US is Simon Property Group. It is a commercial real estate that predominantly consists of regional malls, premium outlets, and The Mills outlets. It also owns, develops, and manages other retail real estate properties. Among other sorts of properties, commercial real estate includes office buildings, industrial facilities, retail businesses, and entertainment venues [1]. The study compares and calculates three key financial data: leverage, WACC and βA, and explores the differences between the real estate sub-sectors by comparing the three companies with the market. First, the study was carried out by collecting data from three companies, comparing and analyzing the financial report data of the three companies, and drawing preliminary conclusions. Secondly, the author calculates the leverage, WACC and βA of the three companies to obtain different data, and finally, compares and analyzes the three data separately, evaluates the development strategies of the three companies, and guides the future development direction of the three companies. At the same time, comparative analysis is made to find more suitable real estate fields for investment, and give investors advice.

2 Method

2.1 Data Collection

The study began with data collection from three companies: Welltower, Equity Residential and SPG. Collect all kinds of data of the company by finding the company's financial reports. This information comes from the income statement, balance sheet, and cash flow statement of the business. The market value of equity, the market value of debt, leverage, the debt-to-equity ratio, and other topics were covered by the authors. At the same time, a series of collation and calculations were carried out on the data of the three enterprises to obtain the research data.

2.2 Data Filtering

Data filtering is vital important in research. Not every piece of data is useful. The comparative analysis of the investment risks and earnings of the three companies forms the foundation of this study. The WACC, beta of asset and leverage of three companies were mainly selected for comparison. The data required for the calculation of these three data includes the marginal corporate tax rate, beta of equity, expected cost of debt capital (Rd), expected cost of equity capital (Re), market value of debt, market value of Asset and debt-to-equity ratio.

And why these data are chosen? It becomes a question and it is important to know what these data are and how to calculate them at the beginning of the research.

First data is leverage, The term "leverage ratio" refers to the proportion of equity capital to total assets in the balance sheet. It is a measure of the company's debt risk and an indication of its potential for payback. Leverage's inverse is called the leverage multiple; the larger the leverage multiplier, the more sensitive to yield and loan interest rates the system is. Leverage has two sides; when a company is profitable, adding more leverage might increase earnings, but doing so will increase risk. As a result, large leverage has advantages while also increasing hazards. Leverage allows economic agents to acquire assets in excess of net worth, and as Geanakoplos puts it, "sometimes, especially in times of crisis, collateral rates (equivalently, margins or leverage) are far more important than interest rates." [2]. To calculate the leverage of the company, the formula as follow will be used.

$$\text{Leverage} = \text{market value of debt} / \text{market value of equity} \tag{1}$$

The next one is beta of asset. A securities or portfolio's volatility, or systematic risk, as contrasted to the market as a whole (often the S&P 500), is measured by its beta. The weighted average of each asset's beta makes up the beta of a portfolio, and by definition, the beta of a market portfolio should be one [3]. Generally speaking, stocks with betas greater than 1.0 are thought to be more volatile than the S&P 500. And here is the formula to calculate the data.

$$\beta A = \beta E / [(1\text{-}TL) / (1\text{-}L)] \tag{2}$$

And the last one is the Weighted Average Cost of Capital (WACC). The average after-tax cost of capital from all sources, such as common stock, preferred stock, bonds, and other types of debt, is what this term refers to. The WACC is the average interest rate that a business anticipates paying to finance its assets. The WACC capital structure decision-making model can help listed firms decide whether to make an investment by helping them estimate if the projected return on an investment will outweigh the cost of the venture [4]. The formula is listed below.

$$WACC = (E / V) \times Re + (D / V) \times Rd \times (1 - Tc) \tag{3}$$

The magnitude of the WACC is determined by the company's cost of debt (Kd) and cost of equity (Ke), as well as the capital structure of the company, as can be seen from the WACC calculation formula [5]. Consequently, the company's fair debt and equity arrangements are crucial in determining the company's future market worth [5].

2.3 Data Analysis

Finally, the study analyzes the data on these filtered data. Only through the analysis of data can it reflect the real estate industry situation. Based on the data calculated by the study, there will be the following assumptions.

First, the first hypothesis is that one of the three companies stands out in all aspects of the data. Such results are undoubtedly the best to analyze. When such a situation arises, investors will undoubtedly be advised to choose this company for investment. The industry behind it will also be more valued.

Second, there are other situations where the three companies are better at different figures. For example, one company is more profitable in terms of profitability, while another company has a greater risk tolerance. At this time, the analysis is not only based on the data itself, but also needs to be combined with the investor's own risk appetite.

3 Results

3.1 Presentation of Research Results

Data. Table 1 is a comparison chart of leverage, WACC and βA of the three companies that have been calculated.

Table 1. Comparative table of economic data of the three companies

Firm	Leverage	WACC
Welltower	0.41	8.99%
Equity Residential	0.36	9.70%
SPG	0.44	9.33%

Analysis. The impact of yield and loan interest rate is simpler to perceive the larger the leverage, although the gross margin is higher, the risk is also high. SPG has the highest leverage and the highest risk. The return-maximizing investor limits their use of leverage to a range that strikes a balance between large exposure and low rebalancing costs [6].

The lower the WACC, the greater the value of the company, and the WACC of the three companies is basically the same, indicating that the company has a high status in the industry, a good reputation, and a more reliable investment. Welltower's WACC is the lowest in these 3 companies so Welltower has the best reputation.

Beta is the best measure of risk among various risk measures in asset pricing models [7]. The higher the beta of asset, the higher the risk. SPG has the highest beta of assets and the highest risk.

3.2 Hypothetical Contrast

After drawing data conclusions, the study analyses the data and compares the results with the hypothesis and finds that it is consistent with hypothesis 2 and inconsistent with hypothesis 1. The results show that the three companies have different salient in leverage, WACC and beta of asset data, and it is impossible to determine which company stands out most in terms of quantification. However, the results are consistent with hypothesis two, so a relative comparison method can be used, a comparison criterion can be established, and then a relatively better solution can be compared.

Hypothesis two also gives an established condition, that is, investors are risk-averse but eager for higher returns. Therefore, compared with the three data, Welltower's company reputation is better, and its performance in WACC is more prominent, although it is not as risky as Equity Residential in leverage, but Welltower is also more profitable, and can earn relatively more income under similar risks, so it is a better choice.

Of course, investors are not necessarily all risk averse, so investors are often advised to choose Equity Residential investment when they are extremely risk-averse, and SPG investment when they can take more risk to get more profit.

4 Discussion

4.1 Reasons

The second hypothesis put forth by the author is confirmed by the study's findings. Welltower's WACC and βA are the lowest, while SPG's βA and leverage are the highest, and Equity Residential's leverage is the lowest. This result differs from the first hypothesis that is easiest to analyze. In practice, companies with better profitability tend to have higher risks. Leverage increases risk and profits because it increases both risk and profitability. Beta of asset too, the higher the number, the higher the risk. The higher the WACC, the lower the market value of the enterprise, usually the growth enterprises will be the same, and these high-risk enterprises do not necessarily mean high returns, each company due to the different impact of operating conditions, asset allocation, development strategies, national policies, will also produce different results. Moreover, these three companies belong to different fields, and their business performance is not only caused by one factor, but also by the combined effect of many factors. This situation is mainly due to the fact that these data do not fully reflect the actual operating conditions of the enterprise, but are more reflected through quantitative means.

4.2 Advices

The authors offer the following advice in light of the study's findings. First, investors are classified according to their risk appetite, which is divided into three categories: risk appetite, risk neutral, and risk aversion. Secondly, according to the difference of these three, it can be found that the focus of these three on investment is also different. The risk-averse group is more inclined to be high-risk and high-reward, while the risk-averse group is more inclined to low-risk, high-reward returns. Risk averse groups tend to focus more on low returns, while risk appetites may focus more on high returns. Therefore, based on this assumption, investors can be better advised.

For prudent investors who cannot bear risk, based on data analysis, Equity Residential is more recommended to be selected, for investors who can take a certain risk and can bear a certain income, Welltower is more suitable, and for those who can take more risk to obtain greater returns, SPG is a good investment choice.

4.3 Deficiencies

However, these studies still have many flaws. The study used only three companies in three sectors of the industry as a supporting basis, and the data was insufficient. At the same time, only comparing the three data in the financial report, without combining the analysis of policy, background, and the company's own operation, will produce errors with the actual situation.

At the same time, in terms of data, an equity-only market index's single factor capital asset pricing model's estimations of equity beta are skewed due to leverage [8]. and compared to monthly data and annual data, daily data is more trustworthy, efficient, and has greater forecasting power [9]. It also more closely matches the premise of market efficiency [9]. Moreover, a company's data is not completely representative of the entire industry, just a simple analysis of the industry.

As well, empirically, the total of the debt and equity values almost always differs from the asset valuation determined from cash flows discounted by WACC [10]. For broad cashflows, we generate asset appraisals [10]. Only when the debt equity ratio is constant over time does WACC valuation equal the sum of the value of the debt and equity [10]. Therefore, it is difficult to guarantee that the data of WACC is completely correct.

5 Conclusion

Overall, the research of these three companies provides an insight into today's US real estate industry. By looking at the whole table of financial performance, we can see that the real estate industry plays a significant role in the whole financial industry, for it represents a huge proportion, and that it is a unique industry. Furthermore, by analyzing three types of special figures in detail, we learn the business preferences of each company to some extent. At last, the industry of real estate might be fluctuant today, but we assume it will still go stronger in the future. Generally, investors are risk-averse, they like high yields but they hate risk. But everyone's tolerance for risk is different. From the calculated data analysis, it is known that SPG's beta of asset is higher and will bear the highest risk, and SPG also has the highest leverage, which means that its asset structure has more risks, but at the same time, the higher leverage means that it has more room for growth and development, which requires careful consideration by investors. Secondly, from the WACC of the three companies, the values of SPG and Equity Residing are also high, which means that the value of the company is relatively low and there is more room for growth. Equity Residential has the lowest leverage, lower risk in terms of capital structure, and it has lower βA, but at the same time it has the highest WACC, indicating that although the company has lower debt and lower risk, but at the same time profitability is worse than the other two, while Welltower has the lowest WACC, the lowest βA and relatively moderate leverage, the investment risk is lower than SPG, but overall, All three companies have normal data and are all large companies that are worth investing in. Therefore, the advice to investors is that for investors with risk appetite, it recommends choosing SPG investment, which will have higher returns, and for risk-neutral investors, it recommends choosing Welltower investment, which has a certain return and does not have to bear more risks. However, most investors are risk-averse, so for this type of investor, the safer Equity Residential investment is the best choice.

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