

Real Profits in Real Estate

Marcus & Millichap tops list of most profitable local public companies.

It's another sign of the region's hot real estate market: Six of the 20 most profitable publicly traded companies in the L.A. area are real estate related.

The Business Journal's list this year of most profitable companies based on three-year return on equity—for the 1444 publicly traded companies on the LABJ Stock Index—were led by the one-two punch of Marcus & Millichap Inc. and KB Home. Calabasas real estate investment brokerage Marcus & Millichap had a three-year return on equity of 42.5 percent, and Westwood-based homebuilder KB Home had a three-year return of 32.4 percent.

Four other real estate-related companies also placed in the top 20: No. 8 CBRE Group Inc., the downtown commercial real estate brokerage, had a three-year return on equity of 21.8 percent; No. 11 Public Storage Co., the Glendale-based self-storage real estate investment trust, posted a 20.4 percent return; No. 15 Macerich Co., the Santa Monica-based shopping mall REIT, clocked in at 18.2 percent; and No. 20 Reading International Inc., a Culver City developer, owner and operator of multiplex cinemas and related commercial developments, had a 15.1 percent return.

The total of six in the top 20 is up from last year, when four real estate-related companies placed that high.

The time period covered by the three-year return on equity for this year's list is based on companies' past three complete fiscal

years. That's generally 2014 through 2016, which were boom years for the local real estate industry.

“Real estate is doing very well these days, so it's not surprising to see so many real estate companies topping your list,” said Lloyd Greif, chief executive at Greif & Co., a middle-market mergers and acquisitions firm. Greif also serves as advisory council chairman of the Lloyd Greif Center for Entrepreneurial Studies at USC.

He pointed to another reason real estate-related companies have fared so well in this measure of profitability: they tend to have low net-asset levels—the denominator in the return on equity ratio—and higher levels of debt, which generally is not factored into return-on-equity calculations. No. 2 KB Home, for example, had \$2.6 billion in long-term debt and \$1.7 billion in total equity, according to its 2016 annual report filed with the Securities and Exchange Commission, for a debt-to-equity ratio of 1.5 to 1.

No. 1 Marcus & Millichap and No. 8 CBRE Group, though, are brokerages and, as such, also have low asset levels and low fixed costs. Marcus & Millichap has focused primarily on facilitating investments for small commercial real estate investors, while CBRE is a more traditional commercial real estate brokerage.



KB Home: A property at the home builder's Arroyo Vista at the Woodlands community in Simi Valley.

Outside of real estate, technology firms comprised three of the top 20 most profitable public companies in the L.A. area.

Simulations Plus Inc., a Lancaster software company for the pharmaceutical industry, was the highest tech company on the list at No. 7 with a three-year return of 21.9 percent. Emcore Corp., an Alhambra semiconductor company, was No. 9 at 20.8 percent, and Hollywood-based J2 Global Inc., which specializes in cloud computing services, came in at No. 18 with a return of 16.1 percent.

Santa Monica Spanish-language broadcaster Entravision Communications Corp., which was No. 1 on last year's list, slipped to No. 19 this year as its net income declined slightly. Burbank entertainment giant Walt Disney Co. moved up to the No. 14 slot from No. 18 last year as its three-year return rose to 18.9 percent.

—Howard Fine