# Comparing IPO and REITs Through Analysis of Invitation Homes Inc. and Sunac China Holdings Limited

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***Abstract:*** Real estate companies have various channels for financing, with IPOs and the establishment of REITs being two significant options. Hence, this study aims to examine and compare the distinct effects resulting from utilizing these two financing channels on the company. This article focuses on the analysis of Invitation Homes Inc. and Sunac China Holdings Limited, investigating the changes in their asset structure, liability composition, and gearing ratio before and after financing, as well as to draw potential conclusions by examining the future implications of these changes. In 2017, Invitation Homes Inc. embarked on IPO and subsequently transitioned into a REIT. In 2010, Sunac China Holdings Limited completed IPO, but it did not adopt the structure of a REIT. The findings derived from the data analysis indicate that after Invitation Homes' transition into a REIT, its asset structure demonstrates improved optimization, its liability exhibits a greater inclination towards long-term loans, and its gearing ratio shows a reduction. Comparatively, for Sunac, following its IPO, various indicators of the company have significant improvement. However, it is noteworthy that the overall structure of the company has remained unchanged. By summarizing the data results, a conclusion can be made that after transitioning into a REIT, the company's assets undergo optimization for the specific REIT type it belongs to. Furthermore, the inherent stability and reliable return characteristics associated with REITs can significantly enhance investor confidence. This research offers reference points for companies in the process of preparing for their IPO and REIT structure.

***Keywords:*** financial channels, capital structure, liability, gearing ratio

## 1. Introduction

As two main financing channels, IPO and REIT play important roles in the process of companies' entry into the market. Companies can sell their shares to investors after IPO, signaling a shift from private ownership to public accountability. Apparently, the IPO decision is crucial for companies, and they embark on this undertaking for various reasons. A theory called Life Cycle Theories [1] provides an explanation for a company's IPO. It compares the company's development process to a lifecycle. As theory suggests, a company is initially private, but when it grows large enough, going public becomes its optimal choice [1]. The reasons for an increasingly large company to go public may be the following [2]. Primarily, company needs more cash for investment, and this demand can be achieved by going public. Subsequently, as the company develops, it is necessary to adjust its

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capital structure. In addition, market supervision after going public can enhance the credibility of the company and demonstrate its value. Moreover, going public is a kind of marketing device which improves consumer base and consumer loyalty. In a study targeting CFOs points that over half of the CFOs agree that IPO helps company to determining the value, which is reason 3, and the explanation for this result is that CFOs believe that it can prepare for future acquisitions and mergers [3].

REIT (Real Estate Investment Trust) is a trust fund that gathers investors' funds for real estate investments to generate income through the issuance of income vouchers. By subscribing to REIT, investors from public obtain a share of REIT's profits (dividend) in a way similar to purchasing real estate directly [4]. A wealth of study shows that REIT is favored by investors because of its continuous growth and low liquidity risk [5]. When a REIT need to go public, it needs to be subject to strict government scrutiny, more stringent than IPO. When REIT qualifies, it can be exempt from corporate income tax, meanwhile, it needs to allocate at least 90% of taxable income as dividends [4]. REITs encompass two distinct categories based on their investment strategies and sources of income: Equity REITs and Mortgage REITs [4]. Equity REITs invest properties such as residential buildings, commercial offices and hotels, therefore, their revenue most from rents. Mortgage REITs' business model is similar to that of commercial banks. They act as lenders, and their revenue from loan interest.

The prevalence of simultaneous IPO and REIT is significant within the real estate industry. Nevertheless, the REIT status of real estate companies varies due to the different degrees of development of the real estate market in different regions. Therefore, it is vital to compare IPO and REIT for discovering what REIT bring to a real estate company which has completed IPO. Invitation Homes Inc. is one of the largest operators of single-family rental homes in the United States, which completed its IPO in 2017 and converted to a REIT. It specializes in the acquisition, renovation, leasing, and management of single-family rental homes. Sunac is one of the largest property developers in China, it focuses on the development and sale of residential projects. It completed its IPO in 2010, however, due to the imperfection of the REIT market, it still has not transferred to a REIT. These two companies can serve as models reflecting different markets. This article will initially provide a concise overview of the financing processes of Invitation Homes Inc. and Sunac China Holdings Limited. Subsequently, the article will delve into Invitation Homes and Sunac's annual financial reports to extract relevant data, which will be utilized to analyze companies' asset structure, liabilities, and gearing ratio (D/E).

## 2. Company Profile

Invitation Homes Inc. is one of the largest single family residential rental real estate companies founded in 2014 in the United States. It finished its IPO and transformed into a REIT in 2017 and listed on the New York Stock Exchange under the ticker symbol "INVH". On February 6, 2017, Invitation Homes Inc. issued 88,550,000 shares of common stock at a price of $20,00 per share [6]. Several months later, it issued an additional 207,448,958 shares for the merger with Starwood Waypoint Homes [7]. By utilizing financial resources from IPO, it has successfully restructured its assets, aligning it with the requirements for REIT. Subsequently, since 2017, it has distributed 100% of its taxable income as dividends to its shareholders annually [7]. Sunac China Holdings Limited is a prominent real estate development company in China. Founded in 2003, Sunac focuses on the development and sale of residential projects. It successfully completed its IPO in 2010 and planned to sell 750,000,000 shares at a price of HK$3.48 per share [8-10]. However, it has not pursued the status of a REIT, potentially influenced by the following factors. First of all, the real estate market conditions may not support the transition. Besides, company's strategic focus is on real estate development, sales and other associated activities. Moreover, prioritizing the flexibility and independence as a traditional real estate company, rather than being limited by the obligations and restrictions imposed by REIT.

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# 3. Results & Discussion

## 3.1. Capital Structure

Invitation Homes Inc., as a rental real estate company, most of its assets are single-family residential properties, meanwhile, its assets consist of a substantial cash, goodwill, and investment for other companies. Sunac China Holdings Limited primarily focuses on real estate development and sales, therefore, the main parts of its assets are Properties under development, completed properties held for sale, and Cash.

Table 1: Assets of invitation homes Inc. (collected from [6-8]).

| Invitation Homes Inc. (Unit: US dollar thousand) | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2020 |
| Investments in single-family residential properties, net | / | 9,002,515 | 17,312,264 | 16,686,060 | 16,288,693 |
| Cash and cash equivalents | / | 198,119 | 179,878 | 144,940 | 213,422 |
| Goodwill | / | / | 258,207 | 258,207 | 258,207 |
| Total Assets | 9,796,978 | 9,732,351 | 18,683,638 | 18,063,428 | 17,506,222 |
| Residential property ratio | / | 92.5% | 92.7% | 92.4% | 93% |
| Cash ratio | / | 2% | 0.96% | 0.8% | 1.2% |
| Asset growth rate | / | -0.6% | 92% | -3% | -3% |

Table 2: Assets of sunac China holdings limited (collected from [10-13]).

| Sunac China Holdings Limited (Unit: RMB thousand) | | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Properties under development | 4,495,379 | 8,032,371 | 19,999,293 | 37,697,620 | 40,694,597 |
| Completed properties held for sale | 1,312,832 | 1,009,898 | 5,651,306 | 8,703,708 | 17,411,712 |
| Cash and cash equivalents | 1,423,832 | 3,957,952 | 2,763,386 | 8,394,026 | 13,414,017 |
| Total assets | 9,717,209 | 15,749,552 | 33,612,556 | 70,934,252 | 97,354,962 |
| Properties under development (ratio) | 46.3% | 51% | 59.5% | 53.1% | 41.8% |
| Completed properties held for sale (ratio) | 13.5% | 6.4% | 16.8% | 12.3% | 17.9% |
| Cash and cash equivalents (ratio) | 14.7% | 25.1% | 8.2% | 11.8% | 13.8% |
| Asset growth rate | / | 62% | 113% | 111% | 37% |

In 2017, Invitation Homes Inc. concluded its IPO, followed by a merger with Starwood Waypoint Homes facilitated by the IPO. This merger led to the transformation of the company into a REIT. As a result of above company's development, there has been a substantial surge in the investment in single-family residential properties and total assets from 2016 to 2017. Meanwhile, other assets like cash did not change significantly, leading to a considerable decline in the corresponding proportion. After 2017, the company operated as a REIT, there has been a consistent decline in total assets, while the residential property ratio and cash ratio both increased. The rationale behind this phenomenon could be attributed to Invitation Homes' transition to a REIT status. Invitation Homes belongs to the category of Equity REITs according to the definition. Following its transition to a REIT, particularly an Equity REIT, in order to refine asset allocation, enhance rental income, and improve investor returns, the company needed to increase residential property ratio. As shown in Table 3, despite a slight decline in the overall number of homes owned since 2017, both the occupancy rate and rental prices have increased. This proves the company's optimization of housing asset allocation through the strategic sale of unoccupied houses for the acquisition of high-quality ones.

Table 3: Residential properties and dividend of invitation homes Inc. (collected from [6-8]).

| | 2015 | 2016 | 2017 | 2018 | 2020 |
|---|---|---|---|---|---|
| Number of Homes | / | 48298 | 82570 | 80807 | 80177 |
| Average Occupancy | / | 94.5% | 94.7% | 94.6% | 96.1% |
| Average monthly rent (US dollar) | / | 1643 | 1692 | 1735 | 1875 |
| Dividend per share (US dollar) | / | / | 0.22 | 0.44 | 0.60 |

Compared to Invitation Homes, Sunac has only completed its IPO. In 2010, Sunac successfully concluded its IPO and obtained substantial capital infusion from the public. As a result of the increased capital, the company embarked on more real estate projects, leading to a significant rise in the number of properties under development, which is the increase from 2010 to 2011. Over time, as the capital gained from IPO gradually diminishes, there is a corresponding decrease in the proportion of properties under development. However, despite this decline in proportion, the actual quantity of properties under development continues to increase. Based on the Table 2, the Completed properties held for sale ratio exhibits a fluctuating upward trend. One potential explanation is that the capital acquired through the IPO has an influence on the current year's assets, while simultaneously having a positive impact on the company's future development.

## 3.2. Liability

According to Table 4, it can be observed that there is a significant change in Invitation Homes' liability structure from 2016 to 2017, characterized by the absence of Credit facility and the emergence of Term loan facility. As the company becoming a REIT, it may decide to shift its financing strategy to focus more on long-term debt due to the need for purchasing real estate properties or long-term investments, which conform to the company's REIT objectives. Non-current liabilities refer to debts expected to be paid within a period longer than one year. For Sunac, in 2010 and 2011, combined with Table 2, the significant increase in the ratio of the Properties under development to Sunac's assets resulted in an increased demand for long-run loans. This surge in demand not only led to a higher amount of long-run loans but also caused an increase in their ratio. After 2011, as the influence of capital growth from the IPO gradually diminished, the ratio of the

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Properties under development to Sunac capital decreased. Then, this decline led to a decrease in the proportion of non-current liability within the company’s overall liability.

Table 4: Liability of invitation homes Inc. (collected from [6-8]).

| Invitation Homes Inc. (Unit: US dollar thousand) | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2020 |
| Mortgage loans, net | / | 5,254,738 | 7,580,153 | 7,201,654 | 4,820,098 |
| Term loan facility | / | / | 1,487,973 | 1,490,860 | 2,470,907 |
| Credit facilities | / | 2,315,541 | / | / | / |
| Total Liabilities | / | 7,774,928 | 10,033,763 | 9,694,242 | 8,950,149 |
| Mortgage loans, net (ratio) | / | 67.6% | 75.5% | 74.3% | 53.8% |
| Term loan facility (ratio) | / | 0% | 14.8% | 15.3% | 27.6% |

Table 5: Liability of sunac China holdings limited (collected from [10-13]).

| Sunac China Holdings Limited (Unit: RMB thousand) | | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Non-current liability | 2,317,666 | 4,967,659 | 11,578,987 | 14,646,068 | 27,354,594 |
| Current liability | 5,528,435 | 6,117,932 | 14,627,854 | 44,294,008 | 51,789,050 |
| Total liability | 7,846,101 | 11,085,591 | 26,206,841 | 58,940,076 | 79,143,644 |
| Non-current ratio | 29.5% | 44.8% | 44.2% | 24.8% | 34.6% |
| Current ratio | 70.5% | 55.2% | 55.8% | 75.2% | 65.4% |

Table 6: Gearing ratio of invitation homes Inc. (collected from [6-8]).

| Invitation Homes Inc. (Unit: US dollar thousand) | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2020 |
| Total Assets | 9,796,978 | 9,732,351 | 18,683,638 | 18,063,428 | 17,506,222 |
| Total Equity | 1,887,031 | 1,957,423 | 8,649,875 | 8,369,186 | 8,556,073 |
| Total Liability | 7,909,947 | 7,774,928 | 10,033,763 | 9,694,242 | 8,950,149 |
| Gearing ratio (D/E) | 419% | 397% | 116% | 116% | 105% |

Table 7: Gearing ratio of sunac China holdings limited (collected from [10-13]).

| Sunac China Holding Limited (Unit: RMB thousand) | | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Total Assets | 9,717,209 | 15,749,552 | 33,612,556 | 70,934,252 | 97,354,962 |

Table 7: (continued).

| | | | | | |
|---|---|---|---|---|---|
| Total Equity | 1,871,108 | 4,663,961 | 7,405,715 | 11,994,176 | 18,211,318 |
| Total Liability | 7,846,101 | 11,085,591 | 26,206,841 | 58,940,076 | 79,143,644 |
| Gearing ratio(D/E) | 419% | 238% | 354% | 491% | 435% |

## 3.3. Gearing Ratio

Gearing ratio (D/E) typically reflects a company's capital structure, financial risk, and potential for returns, which in turn can influence investor perception of the company. Based on Table 6, apparently, before 2017, Invitation Homes had high D/E ratio reaching 400%. However, after the company completed IPO in 2017, its D/E ratio decline to 116% because of the resources from public had increased Total equity. By the final year of data collection (2020), the gearing ratio of the company had decreased to 105%. Therefore, it can be hypothesized that the IPO contributed to a decline in the D/E ratio, reducing the investment company's risk. Furthermore, being a REIT, Invitation Homes may have adopted a risk reduction strategy to ensure investor returns. This approach, combined with the inherent stability of REIT returns, enhances investor confidence in the company, thereby resulting in a continuous decrease in the D/E ratio. For Sunac, as mentioned, the Gearing ratio (D/E) reflects a company's capital structure and operating risk. According to Table 7, the D/E ratio exhibited relative stability at approximately 400%, however, there was a decline after IPO in 2010 and 2011. One potential explanation for this phenomenon is that when Sunac finished its IPO in 2010, it experienced a more rapid increase in Total Equity compared to Total Liability, owing to the infusion of capital from investors. However, following the weaker impacts from the IPO, as a real estate development company, Sunac needed more liabilities to support its business, as a result, it tried to accept additional liabilities, causing the D/E ratio to return to 400%.

## 4. Suggestions & Implications

The insights derived from analyzing the data of the two companies in this article can offer guidance to real estate firms considering IPO for their transition into the public markets. These findings enable companies to anticipate potential post-listing changes and make informed decisions regarding the adoption of the REIT structure based on the companies' main business. Due to the current case study's inability to account for variations in market environments across different periods and regions, it is important to acknowledge that the conclusions drawn from this study possess inherent limitations. For future research, conducting data analysis on companies that have experienced IPOs and REIT transformations within the same period and market can enable the derivation of more comprehensive conclusions.

## 5. Conclusion

To sum up, this study examines the asset structure, liability composition, and gearing ratio(D/E) of the two chosen companies, ultimately discovering that despite both companies had demonstrated growth after their IPOs, their future developments are different. The key differentiating factor contributing to these differences can be attributed to the REIT status and Invitation Homes. In capital structure, Invitation Homes' total assets have experienced slight decline annually after the significant increase, while Sunac continued to grow. The decrease in assets observed in Invitation Homes, after deductive analysis, can be attributed to the company's strategy in optimizing asset allocation aimed at becoming a high-quality REIT and increasing investors returns. In liability, after becoming a REIT, Invitation Homes no longer engaged in short-term borrowing and had shifted its focus towards long-

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term borrowing. For Sunac, throughout the transition from pre-IPO to post-IPO, the debt composition of the company remained consistent. By comparing the two companies leads to the conclusion that after becoming a REIT, there has been a change in the composition of liabilities as a result of strategic shifts implemented by the company. In gearing ratio(D/E), after their IPOs, both companies had experienced a decline in their gearing ratio. As a REIT, Invitation Homes' gearing ratio maintained a low-level owing to the combined impact of the company's asset allocation and investors' confidence. However, following the substantial infusion of equity from the IPO, Sunac attempted to assume additional liability, ultimately leading to the stabilization of its gearing ratio at a heigh-level. The rationale behind these results could be attribute to Invitation Homes' transition to REIT. REITs prioritize investor returns and fulfill the obligation, as a result, some of them will adopt strategies to reduce the operational risk, which also leads to a significant increase in investors' confidence in the company.

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