

## Myth: McDonald's is a real estate company



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I often hear people tell me that McDonald's is a real estate company and that it makes its money from its real estate assets.

In fact, McDonald's makes almost 2/3 of its revenue and profit from its restaurant operations. In addition, the 1/3 it generates by charging rent to its franchisees requires many more assets than its restaurant operations. The return on the assets of McDonald's real estate "division" is therefore much less attractive.

McDonald's results (in millions of \$US):

		2021	2020	2019
<b>Total revenues</b>	<b>% of rev:</b>	\$23,223	\$19,208	\$21,365
Rent from franchisees	36%	\$8,381	\$6,845	\$7,500
Royalties and fees	20%	\$4,704	\$3,881	\$4,156
Sales by company restaurants and other	44%	\$10,138	\$8,482	\$9,709
<b>Net income</b>	<b>% of NI:</b>	\$7,545	\$4,731	\$6,025
Net income on rent	36%	\$2,728	\$2,146	\$2,357
Net income on restaurant operations	64%	\$4,817	\$2,585	\$3,668

Assuming that McDonald's real estate assets could sell for \$125B, the return on those assets for McDonald's is only 1.8% annually. The restaurant division must have a much higher return on assets to arrive at the overall return of 14.0% for McDonald's in 2021.

If we take a small-scale example, for a restaurant whose real estate cost would be \$2 million for McDonald's, the latter could charge around \$90,000 in rent per year. On the flip side, that same restaurant could bring in over \$600,000 in royalties and fees for McDonald's!

The intrinsic value of McDonald's lies much more on the restaurant operations side than on the real estate side.