

China's Future Real Estate Development Tendency

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Abstract. The world's real estate businesses have been growing at a staggering rate. As the economy increases in many countries, people's demand in purchasing real estate rises, starting a new era of real estate businesses, success is seen in many parts of the world. Real estate development is a risky business, developers have to be extremely cautious with every step, keeping an eye on every possible detail that would cause the whole project to collapse. Focusing on our main objective, what is the real estate development rate in China like? According to an analysis report about the bankruptcy rate, it shows that there are a total of 308 real estate companies that faced bankruptcy in 2022. Every year a minimum of 300 real estate companies will collapse but compared to the current surviving company (124665), the percentage is calculated to be 0.25 percent of the total market. Experts have tried to estimate the future trend of real estate development, but because of the complicated systems, it's hard to see a clear result. But as government policies and the economy flow up and down, China's real estate development cannot be underestimated. This paper aims to discover the future development of China's real estate development, estimating whether the real estate business will go on a down road or an upload. Giving an insight, a rough conclusion that answers the doubts in people's minds.

Keywords: Real estate development; Tax; Liability; Threat; Outcome.

1. Introduction

The real estate businesses in China have almost all become a big success, putting a lead to the Chinese market. However, this trend may also lead to an overheating effect where the government is trying to interfere with the real estate company, by creating inconveniences. These may cause big troubles for businesses, especially causing a shortage of funds [1]. The economic system in 1988 was very different than the one now. The constitution changed the policy of trading between land ownership and land use rights. These played a crucial role in how China's real estate system is different than in the United States, whereas in China landowners have more control over the usage of land and a longer period. For example, it could be used for 70 years and then asked for a renewal [2]. As China's real estate market rises, more and more Western investors become interested in investing in some of these businesses. Investors analyzed many conditions before making a big swing, such analysis includes financing cost and labor costs between providence. The difference makes a big impact on the profit. Also, FDIRE in China is responsible for maintaining positive governance relationships with real estate businesses, hopes to build a stronger law system and provide higher services to everyone. Data shows many investors earned a fortune [3]. The Chinese real estate development has some connection with the GDP. After 2000 the economy was slowly recovering from the damage of the global crisis. In 1998 the GDP per capita was \$821, hence the high potential of real estate companies. Over a few years, Chinese real estate has grown at a devastating rate. According to the nationwide research future real estate development is closely connected with the real estate business. If our GPD rises, real estate businesses will be steaming [4].

During the next decade, real estate may be a big potential source for the Chinese economy. Businesses will rise and maybe a big change for all the people in the region. Real estate changes the landscape itself and the area around it, bringing benefits and negative impacts. These industries will change in four ways, financialization, specialization, scale, and clubbing [5]. As the real estate business grows, the Chinese economy blooms. The economy rises, driving many investors and innovation. The projects and real estate from a few years ago had become strong. The customer need is higher than before, becoming more and handier soon after a requirement for every household. The

future of the real estate business is pretty blurry, as companies need to adapt to the new environment and make crucial decisions, or else it will be a disaster [6]. The source of how Chinese real estate bloomed, could be traced to the high urbanization rate of the country. It explains everything, the high urbanization rate equal to the higher need for housing infrastructures, also prompts resident from outside areas to move inside the city or places that has an increasing amount of newly developed real estate [7].

Real estate may have a different effect on private investments. The rise and further development of the real estate business affect urbanization, having a chance to cause balance in the society. After several tests and research, the results show real estate and private investment have a significant connection, leading to two outcomes; promoting the economy even further or being destroyed [8]. Even though real estate companies have been flourishing, doubts and concerns have been brought up by many investors and analysts. Be more cautious and more aware of future obstacles. The real estate business might be an easy target, but it may collapse at any time, especially with the high taxation on the company and the high value needed to start the business [9]. Real estate developers cannot play the old games to survive. Time is changing faster than we even imagine, they need to figure out new plans and strategies to keep up with the era. A developer's financial power and the ability to watch and change according to the changes in markets are crucial to the survival of a real estate company. More and more competitors are appearing, so the risk to the company is increasing [10].

When Investors are analyzing how real estate is built, we look at how the developers and suppliers obtain the money and how they are going to operate this business. As we all know real estate is a risky business, this industry comes with high profits but also a high chance of collapse. In the up following bullet points, the article will mainly explain how real estate development works and potential threats that might occur in the future.

2. The capital source and business model of real estate

2.1. Source of Income

In recent years, real estate businesses have a couple of ways to start. In the first and most common scenario, the developers hold a large amount of cash and have the potential to start the business all by the developers themselves. The second scenario would be requesting a loan from a bank or a private creditor. For those who want to start a real estate business but don't have enough cash they need to borrow from someone, but to match this condition the person either has to hold a minimum amount of capital and a perfect prospectus along with a set of documents and proof. This process would be extremely difficult to accomplish since the bank also recognizes the risk of real estate. When all the documents and proof were approved then the person would be given a loan, set to return after the real estate business gets its income. The third route would be loans from the buyers. Many will afford the down payment on the house; this money will be the first wave of income for the companies.

2.2. Spending and usage

After the capital has been restored, there are many disbursements of funds. The biggest and most challenging part was the purchase of land. Developers need to clarify land sizes, and appropriate fees considering the leftover cost and future usage. After purchasing the land, they have to be mined for construction, fitment, property management, workers, and other regulation fee if the company breaks any laws.

Construction and fitment fees included the workers, material cost, big machinery, and all the necessities associated with the building of the real estate. In normal cases, the company will loan the construction company until they sell the properties out and then pay all the costs to the workers. When the properties are finished building, they'll have to find a property management company to give service to all the households in living the community, as well as to keep the community clean and safe. There are usually two options either find a company or manage the real estate based on the real estate company, but in normal cases, the majority of the real estate companies will choose to find a

professional management company so it's more secure and highly efficient. After everything is settled, they'll have to face a huge tax fee, this is the point that "killed" many real estate developers as if stopping their capital for future development a worse situation bankrupting the company since they cannot afford the enormous tax.

A proper real estate company will always need to keep note of every track of spending, especially big spending making sure if the company made the wrong decision were not.

2.3. Operation models

There are many ways to operate and manage a business. Real estate company has two popular operation routes each has its pros and cons. A recent research report shows that real estate development has three types of operation methods. Light-asset operation, heavy-asset operation, and mix-cooperating operation.

Light asset operation differs from another operation method, where the developers and investors hold large amounts of cash, the advantage of this structure is that it has a strong liquidity where the investors tend to use their "partners" funds to achieve the non-interest-bearing liabilities goal, which could reduce the cost of a project. Light asset operation focuses more on the brand value itself having a stable investment period by period, the sales volume, client engagement, and management ability. This type of management route will put all its attention on designing and operating a project, reducing its inventories.

Heavy asset operations would be focusing more on the flowing investment, trying to decrease the amount of money put into construction and land. The cons of heavy-asset operations are that they have a lot of resources such as land, and require a large amount of capital of investment, but in return are the high profits. Compared to light asset operation it has a higher risk of investment, making it difficult to foresee the impact on whatever is good or not. It requires a large amount of investment to start the project, making it extra difficult to find investors who are willing to invest.

Mix-cooperating operation is just a combination of light and heavy operation, taking the pros of both sides and combining aims for lesser input but high revenue.

So, what is the best plan that suits China's future real estate development? First of all, it is crucial for real estate companies to not walk the same road as real estate companies are doing in the past. Tactics such as high liabilities and high turnover should not be considered, putting the company's future on a risky gambling wheel isn't the smartest way. Secondly, real estate developers have to be clear about seizing and organizing their assets. Developers will have to plan out all the steps before making any rash decisions, making sure the product planning form and the profit model are progressing on the same line. The two cannot have any deviations and need to be matched, or else problems may occur leading to unimaginable damage.

Thirdly, developers can't just look at the profits in front of their eyes, marking the price of the property at a reasonable rational level. If the planner marks the price of housing as too high, out of the range of its value then customers will not be attracted not even considering buying it. This not only benefits real estate companies themselves but stabilizes the market and consolidates a long-term stable market creating benefits for the developers, government, and the consumers.

2.4. Interesting phenomena that interfere Real estate market– "Accept a house but not a loan"

"Accept a house but not a loan" is a phenomenon that has heated up recently in China's real estate market. This phenomenon specifies people who requested a loan to purchase a house could provide enough evidence showing that they haven't owned any house before and would be given benefits on the loan. In China's real estate market, if anyone tends to buy properties, and under the condition of not owning any house they will be given huge benefits. It may include easier loan payments or more additional freebies. This is a really interesting phenomenon that cheats on the system, where consumers are getting way more benefits than they supposedly are and acting as a way to create many unbalanced segments in the market.

3. Risk and outlook

The risk in China's future real estate development has been a debatable topic since now. In 2019 COVID-19 struck the world, deeply damaging every economy. China's economy had been severely harmed, still in a state of recovery. Till now, the pandemic has slowed the growth of real estate businesses, setting an end to many companies. For example, in 2021 real estate development has been continuously sunken into a debt crisis. As a famous real estate enterprise CFLD (China Future Land Development) had suffered from a heavy financial crisis estimated at a 5-billion-yuan loan to the bank and many trust loans. This had further affected many more real estate industries including Tahoe, BRC, and SunShine Group had all been followed up by serious troubles. In the future, China's real estate development is going to many risks and challenges. Developers have to keep track of their plan preventing government interference and market change. Now, the biggest obstacles standing beside every real estate developer's eye were the policies that would be changed by the government. An enormous divergence between private developers and state-owned developers is going to be a major threat, or in other words, the government is setting harsher policy stricter rules for real estate developers, well which drastically reduces their profit. Reducing profit would be the result, big risks and potential danger that developers might encounter would be market oversupply and tight capital chain.

3.1. Government intervention

As businesses move forward, new government policies will rise maybe old rules might be overthrown or collapse, affecting dozens of industries. Real estate is one of its biggest guests. The future development of the real estate business has been determined in the hands of value and capacity, or the amount of land given to the developers and the price of housing sold to customers.

Firstly, the amount of land given or sold by governments to the developers. If the government only releases a fair amount of land for real estate development, then the price of housing will go up due to rarity and high customer needs. Vice versa the government increases land supply then the price of housing will go down because there are many choices to make and to compete with other real estate companies. After considering the amount of land being used to build communities, next were the prices of land. Land is a very costly commodity, depending on the location, environment, and surroundings. The land is very limited; the land fiscal policy determines the value of a real estate property. When the policy is changed it will directly affect the pricing of households and cause many obstacles for real estate developers. Ordinary problems, such as the high land fee companies have to pay second of all developers have to consider and re-calculate their capital, so it won't run out.

Secondly, the monetary policy and tax rate. The sales of real estate depend upon the amount of money held in everyone's hands. As governments increase the currency, loans will rise which decreases the rate of purchase for many people and overall decreases the rate of property being sold out. In other situations when the government shortens the currency it will decrease the economy of real estate, or in other words cool down the whole market. This goes the same if the monetary policy were looser, consumers would gain more support making purchase rates go up overall benefiting the real estate industry.

3.2. Risks occur in industry actions and changes

A common but very crucial issue for real estate business would be the supply chain. Developers need to control their supply chain carefully, preventing all sorts of bad outcomes. Many industries faced bankruptcy because their supply chain ruptured during the process of construction or the beginning of construction. These actions scare off investors and other entrepreneurs who may want to start an industry. Developers would need to be more careful handling the money, making sure that each step is being spent wisely at a reasonable cost.

Other than government threats, financial risk would also be apparent to the real estate business. For instance, a report showed the structure of how real estate businesses had been going in the upper

season of 2023, there are only 7 company that has a revenue of over 100 billion yuan. Compared to before 2 enterprises dropped out of the list and 5 dropped out of the best 50 real estate development boards.

In many real-life cases, merchants, developers, bankers, and almost everyone were afraid of an oligopoly. In the same scenario in the real estate market, an oligopoly of land, resources, and power from the government could all cause a huge range threat. Not only, is it a problem for developers but also the consumer. An oligopoly would cause housing prices to escalate to an unimaginable level. Creating another layer of fear that negates the potential of consumers' purchase rate. It would be a threat to developers if they have no land to develop and expand their business, this will bomb many small real estate industries since they can't afford the high bills and risks. I hope that in the future, government control will be tuned in, stopping any movement of oligopoly This will increase the succession rate of real estate businesses, also satisfy consumer demand. Not to mention, housing prices had already risen, so people in big cities may not see it as a big problem but the ones in towns or rural communities would not be able to afford the high cost.

Market watchers predicted that "China will likely support the real estate sector through fiscal stimulus policies", what was ahead of this situation was all uncertain, no one could make a statement of how the Chinese real estate market could go.

4. Conclusion

After explaining and discussing all the problems for the real estate development industry, let's go over the main point and topic this essay is trying to convey. Real estate development is a business where developers obtain land, by either loaning or buying it directly then designing and constructing properties on the land, and lastly selling them to citizens. The whole process is not easy work, as the developer has to be considerate about millions of risky investments and decisions, one little mistake might lead to a decrease in the overall revenue. So, for the future of real estate development, my suggestion will be to use a light-asset operation where the risks are lower significantly and have the benefit of a high cash flow. Compared to heavy-asset operations the business will not need to input a large amount of initial capital on buying land and dealing with difficult paperwork, and it will also attract other investors from investing in the company since the developers hold a large amount of flexible assets.

As for threats and obstacles that may occur in the future, real estate markets cannot be underestimated. Government policies and regulations will change undoubtedly, and it's almost impossible to predict their next movements. Rivalries and furies competition will have an impact on the real estate market, unleashing the opportunity for big growth or putting an end sign on top of some small companies. Concluding all the factors I've stated above China's real estate development still has a large room to improve Even under pressure and uncertainties it will still be developing at a shocking rate.

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