

Examining on the Impact of Government Policies on Real Estate Enterprises

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Abstract. Contemporarily, governments of all countries have made relevant policy adjustments for their real estate industry to adapt to the current global economic development and national conditions, so as to achieve the stability of the development of real estate enterprises, the healthy development of the domestic real estate industry and improve risk prevention. This study will take the "Three Red Lines of real estate" issued by China as an example to analyze the impact of central enterprises and private enterprises under the state-owned system and system after the policy adjustment in the past three years and calculate the required data through the annual financial statement data, calculation of leverage, responsibility, profit and DuPont analysis. Afterwards, the development and risk situation of private enterprises and central enterprises under the Chinese system are analyzed, and reasonable suggestions are given on the impact of government policy adjustment on central enterprises and private enterprises, so as to maintain the stable development of real estate under the communist economic system and provide reference for countries with the same political system.

Keywords: The three red lines of real estate; China's real estate policy; state ownership; central enterprises.

1. Introduction

The real estate industry is characterized by capital-intensive, large investments, and a long development cycle. At the same time, there are many departments involved in the entire process from development to sales of real estate. Therefore, financial risks associated with real estate arise due to the collective actions of multiple parties [1-8]. The separation of ownership and management means that once a contract or lease is established, the government cannot arbitrarily intervene in the operation and management of the enterprise [9]. By doing so, businesses can respond independently to changes in market signals according to their own interests and goals, and accept responsibility for the consequences of their decisions. Implement the separation of powers to stimulate the enthusiasm of enterprises. However, there are significant differences between SOEs and traditional SOEs. Enterprises are no longer administrative appendages of the government [1]. Instead, they have become relatively independent commodity producers and operators with operating autonomy, which provides the basic conditions for market-oriented reforms [2, 3].

"Three red lines" for real estate. At present, the high housing price in China is obvious to all, and the business model of the real estate industry determines that it is one of the industries most likely to cause financial risks, so it is necessary to control its risks [4, 10]. Therefore, the three red lines in real estate are a policy to limit risks in the real estate industry. If not, regulators will require financial institutions to limit the full caliber debt of the corresponding housing enterprises. The specific contents of the three red lines of real estate are: the asset-liability ratio after excluding the advance payment shall not exceed 70%. The net debt ratio shall not exceed 100 percent. Cash short debt ratio is not less than one [5]. Real estate enterprises are divided into four levels for management from high quality, good, average and risk; high quality enterprises: if all indicators meet the requirements of the regulatory layer, the annual growth rate of interest-bearing liabilities can be relaxed to 15%; if a good

enterprise has only one "step on the line", the annual growth rate of interest-bearing liabilities can be relaxed to 10%; general enterprises if the two indicators "step on the line". The annual growth rate of interest-bearing liabilities shall not exceed 5%; risk enterprises: if all the above three indicators "step on the line", interest-bearing liabilities shall not be increased [4].

Central enterprises are carried out with the support of national policies. With the strategic adjustment of state-owned assets, the scale of the enterprise continues to expand. The shareholding ratio of the controlling shareholders in central enterprises is generally relatively high. The state actually participates in the holding and management, and is directly under the jurisdiction of the central bank. The characteristic of enterprises is that the government implements national policies to maintain social stability. Private enterprises, also known as private companies or enterprise categories, refer to all non-governmental entities. There is no concept of private enterprise in the laws of the People's Republic of China, and private enterprises were created during the process of China's economic reform.

When the government adopts policy measures to adjust a certain industry or economy, it will have a significant impact on that industry's profitability, debt level, and leverage ratio. The purpose of this paper is to take the "Three Red Lines of Real Estate" issued by the Chinese government as an example and analyze the central enterprises represented by China Resources Land, Poly Development, and China State Construction Group Co., Ltd. As well as the private enterprises represented by Vanke Co., Ltd. The companies involved include Vanke, Poly Real Estate, Evergrande, Sunac Group, and China Greenland Group. The purpose is to compare the impact of policy adjustments on both central enterprises and private enterprises over the past three years. The required data will be calculated using the annual financial statements, including leverage, liabilities, profits, and DuPont analysis. Charts and data will be used to explain the development and risks of both private enterprises and state-owned enterprises within the Chinese system. Reasonable suggestions will be given for the impact of government policy adjustments on both central enterprises and private enterprises in order to maintain the stable development of China's real estate industry. Meanwhile, this study can play a significant guiding role in shaping the future market environment of the real estate industry.

2. Company Profile

These companies, including China Resources Land, Poly Development, China State Construction Engineering Corporation, Vanke Group Co., Ltd., China Sunac Group, and China Greenland Group, exemplify the vitality and diversification of China's real estate finance industry. Each company brings unique expertise, financial strength, and innovation to the sector, contributing to the growth and development of China's real estate market.

China Resources Land (CRL) is a prominent central enterprise and a leading real estate development and management company in China. Since its establishment in 1994, CRL has specialized in the development of residential, commercial, and industrial properties. With a presence in all major cities across China, the company has amassed extensive experience in real estate planning, investment, and construction. CRL also engages in property management, hotel operations, and infrastructure development, making it a conglomerate in the real estate sector. The company's diverse expertise, strong financial strength, and commitment to innovation have contributed significantly to China's real estate industry.

Poly Development, a subsidiary of China Poly Group Corporation, is another prominent central enterprise in China's real estate industry. Founded in 1992, the company focuses on residential and commercial real estate development, property management, and investment operations. Poly Development has earned a strong brand reputation by emphasizing quality, innovative design, and sustainable practices. The company has played a crucial role in China's urbanization process by creating vibrant communities and promoting a harmonious living environment. Poly Development's commitment to excellence has established it as a trusted and reliable player in China's real estate market.

China State Construction Engineering Corporation (CSCEC) is one of the world's largest construction companies and a key player in China's real estate sector. Since its establishment in 1957, CSCEC has been involved in various construction activities, including residential, commercial, and public infrastructure projects. The company possesses expertise spanning the entire construction value chain, encompassing planning, design, engineering, and project management. CSCEC has earned a solid reputation, thanks to its technical capabilities, extensive resources, and impressive track record. It has received numerous accolades and secured high-profile contracts in both domestic and international markets.

Established in 1984, Vanke Group Co., Ltd. is a leading private enterprise in China's real estate industry. The company specializes in residential property development and services. Vanke has gained recognition for its innovative design, commitment to sustainable development practices, and dedication to community building. In addition to residential properties, the company's diversified business portfolio includes property management, commercial real estate, and urban regeneration projects. Vanke's unwavering focus on quality, customer satisfaction, and corporate social responsibility has made it a trusted and respected participant in China's real estate market.

China Sunac Group is a dynamic private enterprise that has experienced rapid growth since its establishment in 2003. The company focuses on residential and commercial real estate development and investment, with a strong presence in China's first- and second-tier cities. Sunac Group is known for its bold acquisitions and strategic partnerships, which have enabled it to expand its market share and diversify its portfolio. The company's success is attributed to its innovative marketing strategies, customer-centric philosophy, and emphasis on urban renewal. Sunac Group has garnered market recognition and established a strong position in China's real estate industry.

China Greenland Group is a globally renowned real estate development and investment company. Founded in 1992, Greenland Group engages in residential, commercial, and urban infrastructure projects. The company is known for its iconic architectural designs, commitment to sustainability, and emphasis on technological advancement. Greenland Group has pursued internationalization by undertaking ambitious projects in Europe, North America, and Australia, in addition to its activities in China. The company's global expansion and focus on innovation have solidified its reputation as a prominent player in the real estate industry.

3. Analysis

3.1. Policy Analysis

With the rapid development and dramatic expansion of the real estate industry, economic growth has been accompanied by numerous challenges. In order to control the rapid rise of housing prices and address disorderly growth, the Chinese government has been adjusting real estate policies over the past three years, promoting the concept of "housing is for living, not for speculation," and imposing restrictions on high-leverage and high-risk behaviors. These policy changes have had far-reaching impacts on all real estate companies, although the extent of their effects may vary between companies. Firstly, state-owned enterprises such as China Resources Land, Poly Developments, and China State Construction Engineering Corporation may have stronger resources and a more favorable policy environment to adapt to these policy changes. For instance, if the government implements restrictions on the real estate market in a particular city, these companies may offset the impact through their government connections or by diversifying their operations to other cities or business sectors. Secondly, private enterprises such as Vanke, China Evergrande Group, and China Greenland Group may face greater challenges when dealing with policy adjustments. This is because they may lack the same level of resources and networks as state-owned enterprises, and their businesses may be more reliant on the real estate market, making them more susceptible to changes in real estate policies. This trend can be observed in the financial data of these companies. For example, from 2020 to 2022, the operating income of China Resources Land, Poly Developments, and China State Construction Engineering Corporation experienced moderate growth, remaining relatively stable. In

contrast, Vanke, China Evergrande Group, and China Greenland Group saw fluctuations in their operating income and net profit, with declines occurring in some years.

Through DuPont analysis, we can also observe some related trends. For instance, the return on net assets for China Resources Land, Poly Developments, and China State Construction Engineering Corporation remained stable or slightly decreased, while private enterprises experienced greater fluctuations in their return on net assets, potentially reflecting their difficulties in dealing with policy changes.

3.2. Financial Analysis

As real estate development companies, the major financial indicators for China Resources Land, Poly Developments Holding Group Co., Ltd., China State Construction Engineering Corporation Limited, Vanke Corporation Limited, China Evergrande Group, and China Greenland Group include revenue, net profit, return on net assets, and asset-liability ratio. This article will conduct a financial comparative analysis of these companies. According to financial report data (seen from Table. 1), in 2022, the revenues of China Resources Land, Poly Developments, China State Construction Engineering Corporation, Vanke, China Evergrande Group, and China Greenland Group were 207.061 billion, 281.108 billion, 2.06 trillion, 503.838 billion, 96.752 billion, and 435.909 billion, respectively. Based on the revenue comparison results, China State Construction Engineering Corporation's operating income significantly surpasses other companies.

Table. 1 Comparison of revenue of real estate companies unit: billion.

	Name	2020	2021	2022
nationalized business	China Resources Land	179.587	2121.08	2070.61
	Poly Development	2432.22	2850.24	2811.08
	Chinese State Construction Engineering	1620.33	1890.12	2063.89
Private Enterprise	Vanke Group	4191.12	4527.98	5038.38
	China Sunac Group	2305.87	1983.87	967.52
	China Greenland Group	4560.62	5447.56	4359.09

Based on Table 2, it can be observed that in 2022, the net profits of China Resources Land, Poly Developments and Holdings, China State Construction Engineering Corporation, Vanke Group, China Evergrande Group, and China Greenland Group were 28.092 billion, 18.347 billion, 50.950 billion, 22.618 billion, -27.669 billion, and 1.010 billion respectively. In terms of net profit, China State Construction Engineering Corporation maintains the top position, while China Evergrande Group reported a negative net profit.

Table. 2 Comparison of Net Profit of Real Estate Enterprises Unit: billions of dollars

	Name	2020	2021	2022
nationalized business	China Resources Land	298.10	324.01	280.92
	Poly Development	289.50	273.88	183.47
	Chinese State Construction Engineering	449.25	515.49	509.50
Private Enterprise	Vanke Group	415.16	225.24	226.18
	China Sunac Group	356.44	-382.65	-276.69
	China Greenland Group	149.98	61.79	10.10

3.3. DuPont Analysis

The return on equity reflects the level of income a company can obtain from using its own assets. In 2022, the return on equity of China Resources Land, Poly Development, China State Construction, Vanke, China Sunac and China Greenland will be 14.65%, 9.18%, 13.94%, 9.48%, -47.32% and 1.12% respectively. In terms of return on equity, China Resources Land ranked first, while China Sunac's

return on equity was negative. The asset-liability ratio refers to the ratio of the total liabilities of the enterprise to the total assets, which reflects the amount of the enterprise's debts and the degree of liabilities of the assets. In 2022, the debt ratios of China Resources Land, Poly Development, China State Construction, Vanke, China Sunac and China Greenland will be 68.40%, 78.09%, 74.35%, 76.95%, 92.07% and 87.97% respectively. In terms of asset-liability ratio, China Resources Land has the lowest debt ratio. The results are listed in Table. 3.

Table. 3 Comparison of asset-liability ratios of real estate companies.

	Name	2020	2021	2023
nationalized business	China Resources Land	70.51	69.25	68.40
	Poly Development	78.69%	78.36%	78.09%
	Chinese State Construction Engineering	73.67%	73.21%	74.35%
Private Enterprise	Vake Group	81.28%	79.74%	76.95%
	China Sunac Group	83.96	89.40	92.07
	China Greenland Group	88.89%	88.84%	87.97%

The total asset turnover of China Resources Land and Poly Development remained within the range of 0.19 to 0.21 during the period from 2020 to 2022, indicating a relatively stable operational efficiency (seen from Table. 4). China Construction's total asset turnover showed an upward trend over the same years, increasing from 0.740 in 2020 to 0.778 in 2022, demonstrating an annual improvement in its utilization of total assets. Vanke Corporation also experienced an increase in total asset turnover from 0.224 in 2020 to 0.286 in 2022, signifying an enhancement in its asset utilization efficiency. In contrast, the performance of China Evergrande and China Green in terms of total asset turnover was less satisfactory. Particularly, China Evergrande's total asset turnover declined from 0.208 in 2020 to 0.089 in 2022, indicating a significant decrease in its asset utilization efficiency.

Table. 4 Comparison of Total Asset Turnover Ratio of Real Estate Enterprises

Company Name	2020	2021	2023
China Resources Land	0.189	0.210	0.191
Poly Development	0.194	0.204	0.191
China State Construction Engineering Corporation	0.740	0.788	0.778
Vanke Group	0.224	0.233	0.286
China Evergrande Group	0.208	0.168	0.089
China Greenland Group	0.326	0.371	0.318

Based on the above comparative analysis, the following conclusions can be drawn. Although each company demonstrates its own strengths, CR Land exhibits the most outstanding performance in prudent operations when considering multiple financial indicators. Meanwhile, China State Construction Corporation (CSCEC) surpasses other enterprises in terms of both revenue and net profit, showcasing a robust profit-making capacity. However, its return on net assets and debt ratio are lower than CR Land's, indicating a relative disadvantage in asset utilization and risk control. State-owned enterprises generally outperform private enterprises in terms of total asset turnover. Specifically, CSCEC's total asset turnover significantly outperforms other companies, showcasing its exceptional asset utilization capabilities. On the other hand, private enterprise Vanke performs impressively in total asset turnover, while China Evergrande Group's performance in this aspect is comparatively weaker. This difference may be attributed to factors such as the companies' business models, operational strategies, and industry environment.

4. Problems Estimation

As a state-owned enterprise, China Resources Land benefits from a stable policy environment and abundant resources. From its financial data, it can be seen that the company's operating revenue has maintained steady growth over the past three years, with only a slight decline in net profit. However, overall stability is indicated, indicating solid operational performance. In the DuPont analysis, China Resources Land's return on equity and debt-to-asset ratio have remained relatively stable. Despite the adjustments in the real estate market, the company has been able to maintain a favorable operational condition. Poly Developments and Holdings has also maintained relatively stable operating revenue over the past three years. However, its net profit experienced a decline in 2022, indicating a decrease in profitability possibly due to adjustments in real estate policies. The DuPont analysis shows that Poly Developments' return on equity and debt-to-assets ratio have remained relatively stable. Nevertheless, it's worth noting that the company's debt-to-asset ratio is relatively high, indicating significant debt pressure. China State Construction Engineering Corporation has demonstrated strong resilience and a robust performance with steady growth in operating revenue and net profit over the past three years. Its debt-to-assets ratio and return on equity have remained relatively stable. However, the company's total asset turnover ratio has increased during these three years, indicating an improvement in operational efficiency and asset utilization.

Over the past three years, Vanke Group has shown a growth trend in operating revenue, while net profit remained stable in 2021 and 2022. Through financial analysis, it is evident that Vanke's return on equity has been relatively stable, but its debt-to-assets ratio has been decreasing each year, indicating an improvement in debt management. The total asset turnover ratio has also increased, demonstrating significant enhancement in asset utilization. China Evergrande Group experienced a significant decline in operating revenue and net profit over the past three years, indicating substantial operational pressure amid real estate policy adjustments. Particularly in 2022, the company's net profit turned negative, reflecting severe impacts on its profitability. China Evergrande's return on equity and total asset turnover ratio also experienced significant declines, indicating decreased profitability and asset efficiency. Additionally, the company's debt-to-assets ratio increased over the three years, indicating a growing debt burden. After reaching its peak in 2021, China Greenland Group's operating revenue declined in 2022. Net profit also experienced a significant decrease over the past three years, indicating a decline in the company's profitability. The DuPont analysis shows that China Greenland Group's return on equity has been declining as well, but its debt-to-assets ratio remained relatively stable. The company's total asset turnover ratio fluctuated over the three years, with an overall downward trend in asset efficiency.

In summary, China Resources Land and China State Construction Engineering Corporation, as state-owned enterprises, demonstrate clear advantages in stable operations and profitability. On the other hand, private enterprises face greater operational pressures and risks. This discrepancy could be attributed to various factors such as business strategies, market positioning, and business structures. Therefore, investors should not only focus on financial performance but also gain a deep understanding of each company's business model and market environment to make more accurate investment decisions.

5. Suggestions

According to the analysis, some suggestions are put forward accordingly. Firstly, state-owned enterprises should leverage their resources and relationship advantages to better adapt to and utilize changes in the policy environment. At the same time, they should focus on improving operational efficiency and reducing debt levels to enhance their competitiveness. Secondly, companies should pay closer attention to policy changes and be proactive in implementing measures to diversify their businesses, reducing reliance on a single market. Concurrently, private enterprises need to strengthen their financial management capabilities, control debt, and improve asset utilization efficiency to cope with potential risks. Additionally, these companies need to be attentive to macroeconomic factors that

may affect their businesses, such as economic growth rates and interest rates. The real estate market tends to perform strongly when the economy is flourishing. However, during economic slowdowns or crises, the real estate market is often significantly impacted. Therefore, these enterprises should closely monitor macroeconomic conditions and adjust their business strategies accordingly.

6. Conclusion

It is recommended for the government to continue implementing and optimizing existing policies in order to promote a healthy development of the real estate market. At the same time, it is also necessary to consider providing more support to those private enterprises that are greatly affected by policy changes in order to help them better cope with market changes. Whether state-owned enterprises or private enterprises, they need to constantly adapt to and respond to policy changes, improve their operational and management capabilities in order to achieve sustainable development. At the same time, the government also needs to constantly adjust and optimize its policies to promote the healthy development of the entire industry. For enterprises, although central enterprises can withstand higher-risk business compared to private enterprises, it is important for them to avoid being in a high-risk state. If faced with a crisis, this could bring huge damage to the entire real estate industry and affect the national economy as well. According to economic risk "infectivity," such an event would have a domino effect on other industries, leading to a decline in the overall economy. For private enterprises, such enterprises have always maintained a cautious attitude towards operations. Therefore, private enterprises in the real estate industry are currently in a wait-and-see state and should not make excessive risk decisions, resulting in polarization within the real estate industry. Central enterprises as state-funded enterprises are willing to undertake high-risk investments while private enterprises, on the contrary, tend to be more cautious. The development of the real estate industry is unbalanced, and its ability to handle risks is weak. Therefore, the state should not adopt a one-size-fits-all approach when adjusting policies. Enterprises that have a high risk profile, particularly those with governmental economic backing, should restrict their involvement in risky real estate ventures. For private enterprises, the state should introduce relevant supportive policies to enhance their involvement in the real estate industry. This complementary multiplication can enhance the capacity of the real estate industry to assume risks. so as to maintain the stable development of real estate under the communist economic system and provide reference for countries with the same political system.

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